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ESTABLISHED 1887

U.S., Soviet Union Sign Pact to Scrap INF Missiles

By Don Oberdorfer
Washington Post Service

WASHINGTON — President Ronald Reagan and Mikhail S. Gorbachev, the Soviet leader, signed a treaty Tuesday eliminating medium-range and shorter-range nuclear missiles.

They also declared their determination to go on to cut long-range strategic nuclear arms.

Sitting side by side in the East Room of the White House, the two leaders inscribed their signatures on the intermediate-range nuclear forces treaty, the first treaty ever to eliminate an entire class of offensive nuclear arms. Then they went back to work on wide-ranging discussions intended to bring additional gains in disarmament and U.S.-Soviet relations.

Under terms of the accord, the United States will over three years scrap Pershing-2 and cruise missiles deployed in West Germany, Britain, Italy and Belgium. In all, the United States will eliminate about 850 medium- and shorter-range missiles. The Soviet Union will eliminate about 1,750 missiles over all.

Mr. Reagan and Mr. Gorbachev, at times solemn, at times gently jostling with each other in the manner of old friends and quoting from proverbs and sayings, time after time expressed hope that the talks this week, their third summit meeting, would be crowned with further achievements.

"We can see what we can accomplish when we pull together," Mr. Reagan said before signing the treaty.

He said the treaty should be not the end but "the beginning of a working relationship" that could bring progress in reducing strategic arms, improving the balance of conventional forces in Europe, settling regional conflicts and advancing human rights.

Mr. Gorbachev also made mention of the potential for reductions of conventional arms in Europe.

The Soviet leader, as he prepared to put his name to the treaty, described it as a chance to change the direction of great power military developments, "a big chance at last to get onto the road leading away from the threat of catastrophe."

Mr. Gorbachev said that Dec. 8, 1987, was "a date that will be inscribed in history" as the dividing point between growing risk of nuclear war and a growing demilitarization of the world.

The preamble to the treaty they signed declared that the United States and the Soviet Union were:

"Conscious that nuclear war would have devastating consequences for all mankind.

"Guided by the objective of strengthening strategic stability, convinced that the measures set forth in this treaty will

help to reduce the outbreak of war and strengthen international peace and security.

"Mindful of their obligations under Article VI of the Treaty on the Non-Proliferation of Nuclear Weapons."

A last-minute hitch that threatened to create a ticklish diplomatic and political problem was settled on Tuesday morning when the Soviet Embassy provided a clear photograph, which had been transmitted by facsimile from Moscow overnight, of an SS-20 missile, the principal type of Soviet nuclear weapon that is to be eliminated under the intermediate nuclear forces treaty.

A photograph that had previously been submitted for inclusion in the annex of the treaty was rejected by the United States on Monday night as inadequate. State Department officials said the earlier picture showed the huge canister in which the mobile SS-20 is transported, but not the missile itself.

Until the picture from Moscow was received several hours before the signing of the treaty, the United States did not have a clear photograph of the missile, which is rarely removed from its portable canister, according to the officials.

A Soviet spokesman, Gennadi I. Gerasimov, made light of the dispute, holding up a copy of the photograph at a news

conference after it had been provided to the U.S. side and saying, "There is nothing very exciting in it."

The first meeting of the two leaders came during a full-dress ceremonial welcome, complete with 21-gun salute, U.S. military honors and U.S. and Soviet flags and anthems on the White House South Lawn.

In an exchange of remarks that was unusually substantive for such a ceremonial occasion, Mr. Reagan and Mr. Gorbachev each declared his intention of using the three days of talks to make progress toward their agreed goal of reducing U.S. and Soviet strategic nuclear arms by 50 percent.

Speaking first in a Russian phrase and then in English, Mr. Reagan said, "The world is watching."

He added: "We make history. Changing its direction is within our power. However, such change is not easy and can be accomplished only when leaders of both sides have no illusions, talk with candor and meet differences head on. Such, I hope, will be the spirit of our upcoming meetings."

Mr. Reagan made it clear that, in addition to nuclear arms control, he was eager to discuss with Mr. Gorbachev the entire

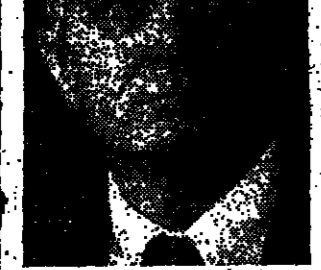
See SUMMIT, Page 4

Klosk France Expels Iranian Rebels

PARIS (AP) — France on Tuesday expelled 17 alleged members of an Iranian opposition movement, putting them on a plane to the West African country of Gabon.

The Interior Ministry said that 14 Iranians and three Turkish citizens it said were members of the People's Mujahidin of Iran were expelled Tuesday morning "for pressing reasons of national security. The ministry said nine others — eight Iranians and one Turk — were placed under house arrest.

The government of Prime Minister Jacques Chirac denied charges that its actions against the mujahidin stemmed from negotiations with Iran over French hostages in Lebanon.



Senator Lawton Chiles's decision not to seek reelection may make it hard for the Democrats to keep control of the Senate. Page 6.

GENERAL NEWS
The FBI is investigating the possibility of a "criminal act" in a jet crash that killed 43. Page 2.
The effort to end the Cambodia conflict is said to be facing major hurdles. Page 7.

BUSINESS/FINANCE
OPEC oil producers are trying to protect their shrinking purchasing power. Page 17.
Dow close: UP 56.20
The dollar in New York:
DM £ Yen FF
1.6635 1.7995 132.65 5.651

Senate Girds For Approval Of Treaty

By Susan F. Rasky
New York Times Service

WASHINGTON — The Senate, that remarkable legislative vehicle built for 100 drivers with no back seat, is revving up to drive toward approval of the arms control treaty that President Ronald Reagan and Mikhail S. Gorbachev signed on Tuesday.

Many senators said in interviews that the approval of the treaty itself was not in doubt, but rather which amendments, reservations, and understandings would be attached.

Preliminary battle lines are being drawn around three major issues: how the treaty will affect the balance of conventional armed forces in Europe, the adequacy of the treaty's verification provisions, and whether approval should be linked to Soviet compliance with previous arms control agreements.

If approved, this would be the first arms accord to win Senate endorsement since the Anti-Ballistic Missile Treaty of 1972. Senator Sam Nunn, chairman of the Armed Services Committee, one of three panels that will hold hearings, noted that the Senate's continuing battle with the Reagan administration over interpretation of the ABM treaty is a key reason that senators in both parties want to scrutinize the new treaty banning medium-range and shorter-range nuclear missiles and to attach their own caveats and understandings to it.

"We are compelled to look at both the treaty and the negotiating record," Mr. Nunn, a Georgia Democrat, said, "because the executive branch has told us, one, that we can't take their word about what a treaty says and, two, that if we think something is important or unclear in the treaty, we have to flag it."

Under that theory, we have no choice but to offer understandings that would have to be renegotiated.

The jockeying may have less to do with the substance of the current treaty than with concerns about its implications for the substance of an agreement on reducing long-range, or strategic, missiles. Mr. Reagan would like to sign a strategic accord in Moscow next summer.

The treaty has already become a lightning rod in the 1988 presidential race. Vice President George Bush is the only Republican contender to support it. His chief rival, See SENATE, Page 5



Mikhail S. Gorbachev and Ronald Reagan shaking hands after signing copies of the treaty eliminating intermediate nuclear forces on Tuesday.

Greetings at the White House: Excerpts From the Official Remarks

Reagan
General Secretary and Mrs. Gorbachev, I've welcomed a good number of foreign leaders to the White House in these last seven years. And today marks a visit that is perhaps more momentous than many which have preceded it, because it represents a coming together not of allies but of adversaries.

Gorbachev
History has charged the governments of our countries and the two of us, Mr. President, with a solemn duty to justify the hopes of Americans and Soviet people, and of people the world over, to undo the logic of the arms race by working together in good faith.

In the world's development, much will depend upon the choice that we are to make, upon what is to triumph: fears and prejudice inherited from the cold war and leading to confrontation, or common sense, which calls for action to ensure the survival of civilization.

We in the Soviet Union have made our choices. We realize that we are divided not only by the ocean but also by profound historical, ideological, socio-economic, and cultural differences. But the wisdom of politics today lies in not using those differences as a pretext for confrontation, enmity, and in the arms race.

U.S. - Soviet Arms Treaty: What the 2 Sides Agreed To

Weapons
The missiles will be destroyed in a three-year period after the accord takes effect. The United States will destroy 429 intermediate-range missiles already deployed and 260 others not yet deployed; it will also destroy 160 shorter-range weapons not yet deployed. The Soviet Union will eliminate 470 intermediate-range missiles now deployed and 356 others not yet deployed; it will also eliminate 926 shorter-range weapons.

Ratification
The treaty has to be ratified by the Supreme Soviet, the Soviet Union's nominal parliament, and by the U.S. Senate. Democratic leaders say that Senate hearings will begin Jan. 19 and that a vote is likely within two months after the hearings start. Senate ratification requires a two-thirds margin, or 67 votes of the 100 senators.

Verification
Within three months after the treaty is ratified, teams of on-site inspectors will visit every missile site listed by each nation in a separate protocol. For six months after the treaty takes effect, each side can get rid of 100 missiles each by launching them, unarmed. The missiles can also be cut up or buried.

Negotiations
The negotiations began in 1980, a year after NATO agreed to the deployment of cruise missiles starting in 1983. The deployment was in response to the SS-20 deployments that began a decade ago. The talks have been going on under Mr. Reagan since 1981.

Claws of Asia's 4 'Tigers' Slicing U.S. Trade Gains

By John Meehan
International Herald Tribune
NEW YORK — The Reagan administration's ability to sustain the kind of improvement in the U.S. trade deficit that cheered financial markets last month is being seriously impaired by a flood of imports from Asia's newly industrialized countries, analysts say.

Until recently Washington has been applying quiet diplomatic pressure on the so-called four little tigers — Hong Kong, Singapore, Taiwan and South Korea — to take measures to redress their trade imbalances with the United States. These small nations now account for 30 percent of U.S. imports and the fastest growing segment of the trade deficit.

The 3d Summit: Pageantry, Promises and Symbols

By David Hoffman
Washington Post Service
WASHINGTON — They had met before with simple handshakes on the cold shores of Lake Geneva and against the grey skies of Iceland, but this time President Ronald Reagan and the Soviet leader, Mikhail S. Gorbachev, opened their summit talks with full pageantry and ambitious vows to end the arms race.

The arrival ceremony for Mr. Gorbachev, the first Soviet leader to visit the United States in 14 years, was filled with symbolic reminders that this meeting holds

fresh promise for results not achieved in Reykjavik and Geneva. Instead of quiet silent greetings on neutral territory, the American president and Soviet leader paused at the outset of their third summit meeting to offer speeches that struck a surprisingly parallel — and hopeful — tone.

They spoke against a backdrop of U.S. soldiers carrying Soviet flags down the drive of the South Lawn of the White House. And some of the guests waved tiny American and Soviet flags in celebration of what Mr. Reagan described as a meeting of "adversaries" who have "an opportunity to move from confrontation toward cooperation."

both nations were played by the U.S. Army Band and smoke from the 21-gun salute wafted across the South Lawn.

Dutch Cancel Plan to Cut NATO Role

Compiled by Our Staff From Dispatches
THE HAGUE — Prime Minister Ruud Lubbers confirmed Tuesday for the first time that the Netherlands would continue two NATO nuclear missions that it had planned to drop until the U.S.-Soviet arms treaty canceled the deployment of cruise missiles on Dutch soil.

Mr. Lubbers said nuclear-armed F-16 fighter planes and Orion sea patrol aircraft would continue to be based in the Netherlands. The government decided in 1985 to discontinue the missions as part of a political arrangement to win approval for deployment of cruise missiles in the Netherlands in 1988.

The Netherlands has two other NATO nuclear tasks, involving the maintenance of heavy nuclear artillery and Lance missile systems. Asked whether the Netherlands would keep all four nuclear tasks, Mr. Lubbers said, "In fact, yes."

The Dutch decision was an indication that, for many Europeans, the nuclear disarmament process has gone far enough for now.

In West Germany, the European nation where most of the North Atlantic Treaty Organization's nuclear weapons are concentrated, Foreign Minister Hans-Dietrich Genscher has urged NATO to follow up the arms treaty with talks on eliminating other U.S. nuclear missiles in Europe, notably the short-range "battlefield" systems.

Rejecting this view, other European leaders, including the Christian Democrats in Chancellor Helmut Kohl's coalition government in Bonn, have argued that the treaty should not be allowed to lead to the elimination of all U.S. nuclear missiles from NATO countries.

Instead, they have said, arms control in Europe should now focus on conventional forces.

"There are still too many weapons, especially for us in Europe and here in West Germany," Mr. Kohl said Tuesday in a television address. "We want the disarmament process to continue, with the condition that in the final analysis, our security is increased and not diminished."

"Chemical weapons must finally be banned worldwide," he said. "In Europe we are trying to achieve a balanced relationship at a lower level for conventional weapons and nuclear weapons with a range under 500 kilometers" (300 miles).

Nevertheless, Mr. Kohl told his countrymen to "rejoice" in the treaty. And Prime Minister Margaret Thatcher of Britain called the accord "a marvelous Christmas present."

A spokesman at NATO headquarters in Brussels said the alliance saw the treaty as "a true milestone for the arms control process."

He said the allies had not aside earlier misgivings about the effect of the treaty on their security. "Let there be no question: The entire alliance strongly supports ratification of the agreement," he said.

The five European nations that agreed to have U.S. medium-range missiles on their territory said they would sign an undertaking Friday in Brussels allowing Soviet inspectors to check treaty compliance.

In return for the inspection privileges in West Germany, Britain, Italy, Belgium and the Netherlands, the Soviet Union committed East Germany and Czechoslovakia to receive U.S. inspectors.

President Ronald Reagan described the inspection process during and after the removal of the See ALLIES, Page 5

More on Summit
Demonstrators made their feelings known across from the White House. Page 3.
Reactions abroad included cynicism, anxiety and optimism. Page 4.
Raisa Gorbachev, with few words, heads off on a whirlwind tour of Washington. Page 5.

FBI Probing 'Criminal Act' in Jet Crash

Compiled by Our Staff From Dispatches
CAYUCOS, California — The Federal Bureau of Investigation said Tuesday that the crash of a Pacific Southwest Airlines jet appeared to have been caused by "a criminal act."

An ABC News report on Tuesday said that a former USAir employee, gunning for his boss, was among the 43 people aboard. The pilot of the jet radioed that there was gunfire aboard and smoke in the cockpit shortly before it crashed onto a ranch in central California on Monday, killing all 43 aboard, officials and witnesses said.

"At this point it does not appear that it was an accident," Richard Bretzing, head of the FBI office in Los Angeles, said before the ABC report. "It appears at this point — and has yet to be substantiated — that it was a criminal act on board that caused the craft to come down." Mr. Bretzing said agents at the site were looking for a weapon. ABC News said a former employee of USAir, using his airline

4 Chevron Officials Among Victims

SAN FRANCISCO — Four executives of Chevron's domestic oil and gas subsidiary, including its president, were among the victims in Monday's crash of Pacific Southwest Airlines flight 1771, the company said.

Chevron Corp. said the four were James R. Sylla, Chevron U.S.A. president; Owen F. Murphy, Los Angeles regional vice president for general representation; Jocelyn G. Kempe, Ventura and Santa Barbara public affairs manager; and Allen F. Swanson, public affairs manager for Orange, California, and the Arizona area.

Chevron Corp. said the four were James R. Sylla, Chevron U.S.A. president; Owen F. Murphy, Los Angeles regional vice president for general representation; Jocelyn G. Kempe, Ventura and Santa Barbara public affairs manager; and Allen F. Swanson, public affairs manager for Orange, California, and the Arizona area.

The former USAir employee reportedly left behind a suicide note in which he said he would get on the plane with a .44-caliber Magnum and six rounds of ammunition, the network said.

United Press International reported that a spokeswoman for USAir, which merged with PSA at the end of May, said in Washington that the airline could not confirm the report but that the dead in the

Crews found the "black box" containing flight data and sent it to Washington.

The flight was en route from Los Angeles to San Francisco. There were 39 passengers and four crew members aboard. The airline initially reported 44 dead, but then said it counted one flight attendant trainee twice.

Gene Katz, who was flying a small plane from Santa Rosa to Los Angeles, reported overhearing the airline pilot talking to air traffic controllers.

He said that the PSA pilot "said he had an emergency, there was gunfire, and he was squawking in seven-seven-zero-zero, which is a special code."

Mr. Katz added, "At that time, the controller said: 'Say again, and the captain confirmed, he said, 'I have an emergency, gunfire, and that was the last communication.'"

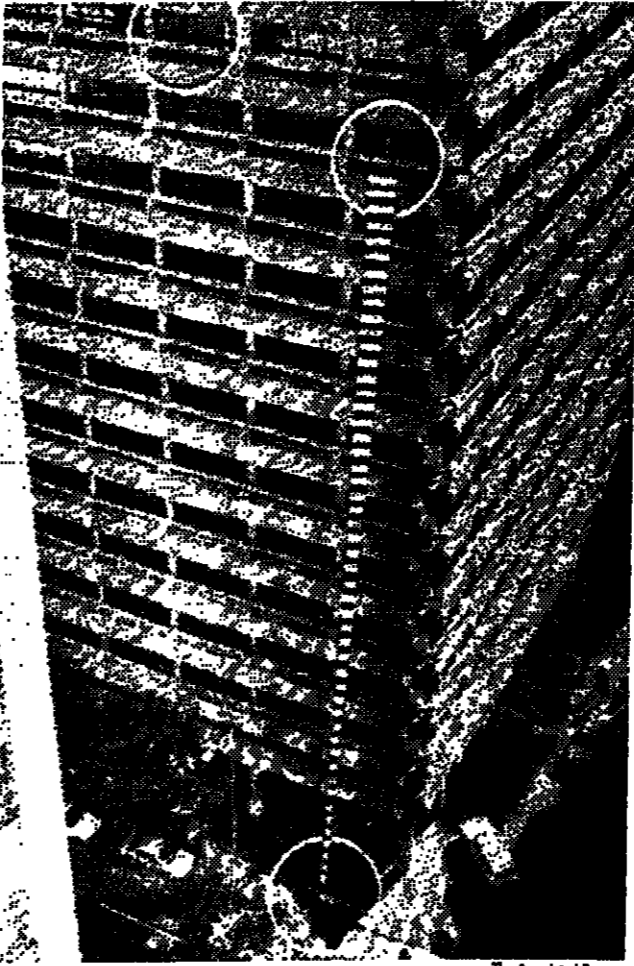
Stephen A. Kronick of Sacramento, a passenger in a chartered plane en route to Paso Robles, said, "We heard the PSA pilot say gunfire aboard. The Oakland terminal tried to call him back, and we didn't hear a response."

The airliner, which seats 85, was sighted burning on its left side over Templeton, about 20 miles from the crash site, shortly after radio and radar contact was lost at an altitude of 22,000 feet (6,700 meters), said another witness.

All airline passengers and carry-on bags are screened for weapons, and the boarding of the jet's passengers had been routine, said an airline spokesman in San Diego. The X-ray and metal-detection equipment at the boarding area were checked by the Federal Aviation Authority and were operating properly, another spokesman said.

The aircraft that crashed was manufactured in 1984. Its engines were recently overhauled.

The pilot, Captain Gregg N. Lindamood, 43, of Julian, had logged 11,000 hours of flying over 14 years with the airline, including 1,500 hours on the BAe-146, the airline said. (AP, UPI, Reuters)



The Melbourne office building where a gunman plunged to his death Tuesday after going on a random shooting spree. The photo indicates his fall and an area of broken windows.

Gunman in Melbourne Kills 8, Falls to Death

MELBOURNE — A gunman killed eight persons Tuesday in an office building and wounded several others before falling to his death from an 11th-floor window, the police said.

Office workers at the Telecom Credit Cooperative said the gunman ran through the building shooting at random with a high-powered weapon. Five women and three men were killed, a police official said.

Telecom employees were preparing to leave for the day when the gunman entered the building. The shooting started when the gunman confronted another man in a dispute "not of the normal family domestic type," the police said. They said that several shots were fired but that the other man was not hit.

No motive was immediately offered. The police withheld the man's identity but said he was 22 years old.

The shooting came four months after a shooting spree in Melbourne left seven persons dead and 18 wounded in what was Australia's worst random slaying. A teen-aged army cadet, Julian Knight, was charged with those killings.

A government official, John Cain, on Tuesday pledged an immediate investigation to prevent similar acts of violence.

Melbourne, a city of 3 million on the southern coast, is Australia's second-largest city.

Israel Enforces Curfew In Gaza After Murder

TEL AVIV — Israeli troops enforced a curfew on Gaza City for the third consecutive day Tuesday following the killing of a Jewish salesman in the occupied area by Palestinian guerrillas, an Israeli Army spokesman said.

Shlomo Takal, 45, from the Tel Aviv suburb of Bat Yam, died in hospital Sunday a few hours after he was attacked. The national radio said most of the suspects arrested after the killing had been released while a few remained in police custody for questioning.

WORLD BRIEFS

South Africa Police Detain Activist

JOHANNESBURG (WP) — South African security police detained without charges a prominent anti-apartheid activist, Eric Molobi, on Tuesday as fears rose among black nationalists that a pre-Christmas crackdown on government opponents was imminent, his attorney said.

Mr. Molobi, one of the few members of national executive committee of the United Democratic Front anti-apartheid coalition who was not in detention, was reportedly arrested as he left the central Johannesburg office of the lawyer, Priscilla Jana. He had been discussing the creation of a trust fund for the recently-released African National Congress chairman, Govan Mbeki, Ms. Jana said.

Ms. Jana said that the police had confirmed to her that Mr. Molobi was being held without charges under emergency regulations. Sources in the United Democratic Front said they feared a new roundup of officials of the organization, which consists of more than 700 anti-apartheid groups.

Iraq and Iran Claim Strikes in Gulf

NICOSIA (AP) — Iraq said its planes attacked a tanker off Iran's Gulf coast on Tuesday, and Iran said that its ground forces had downed two Iraqi fighters and that its air force had bombed southern Iraq.

Tehran's official Islamic Republic News Agency said that both Iraqi planes were downed on Monday, one with a U.S.-designed Stinger missile. The official Iraqi News Agency quoted an air force spokesman as denying that any Iraqi planes had been lost.

South Korea Seeks Suspect's Return

BAHRAIN (Reuters) — A South Korean envoy arrived in Bahrain on Tuesday to seek extradition of a woman whom Seoul officials suspect of planting a bomb on a Korean airliner that apparently plunged into the Andaman Sea with 115 people aboard.

The envoy, Park Soo Gil, South Korea's deputy foreign minister, is scheduled to meet with Bahrain officials to discuss the extradition of the Asian woman, who is being held at an island prison off Bahrain.

South Korean officials say they believe that the woman, who swallowed a cyanide capsule after her arrest but survived, is one of two North Korean agents they suspect of planting a bomb on the plane, which vanished on Nov. 29. The woman and the other suspect, an elderly Asian man, were at the Bahrain airport as they tried to leave for Jordan on Dec. 1. The man died after taking cyanide.

Israel Asks Probe of Lost Nazi Files

UNITED NATIONS, New York (UPI) — Israel called on Tuesday for a "full-scale investigation" by the United Nations into the disappearance of about 400 files from the archives of the UN War Crimes Commission.

An Israeli reporter, Uri Dan, learned of the disappearance of the files on Monday. Mr. Dan is the first journalist to have been admitted to the archives since they were opened to the public last month.

The director of the archives, Alf Erlundsson, said his department found out over the past year, when it began microfilming the files, that 433 of them were missing. He could not say how they may have disappeared. The Israeli spokesman for the UN mission, Eyal Arad, said, "We expect the United Nations to launch a full-scale investigation into the disappearance of the files."

TRAVEL UPDATE

Air France Unions Urge 4-Day Strike

PARIS (AP) — Two unions representing pilots for Air France, the French national carrier, called on their members Tuesday to strike for four days beginning Thursday.

Air France said a meeting with the two unions broke down when the company and the pilots were unable to reach a compromise on demands for pay raises for pilots who will fly the new Airbus A320, scheduled to go into service in March. The company said the pilots were demanding raises of from 1,000 to 2,000 francs (\$175 to \$350) a month.

Italian train conductors have called for a national 24-hour strike beginning at 4 P.M. on Sunday. Streetcar and bus conductors plan four-hour national strikes on Wednesday this week and next, according to their unions.

Airport ground employees in Italy have announced a national 24-hour strike for Monday. And pilots for the airline Alitalia also plan strikes Jan. 7 and 14. (IBT)

Air Inter, the French national domestic airline, will offer transport services for some types of cars and motorcycles in the holds of its Airbus jets beginning Jan. 1. Prices will range from 1,050 francs (\$184) to 1,600 francs for cars, depending on the destination, and 450 to 600 francs for motorcycles of 125cc size. (IBT)

Greece imposed emergency anti-pollution measures in Athens on Tuesday amid heavy smog. The decrees restricted auto traffic within a 115-square-mile (300-square-kilometer) area around the city. Only taxis, ambulances and cars with special passes were to be allowed to circulate in the city center from 6 P.M. to 10 A.M. Wednesday. Carbon monoxide and smoke levels had surpassed danger limits. (AP)

Correction

An article in the editions of Dec. 5-6 on Malaysian government initiatives to curb criticism contained several editing errors. Although the bill was introduced for debate Friday, the measure was first presented Nov. 30. A statement by the government that it would push through Parliament a measure trimming judicial authority was made on Thursday. Finally, analysts expect the government to bring that measure before Parliament in early 1988.

After Centuries of Invasion, Afghans Embrace Fighting as a Way of Life

By John Kifner
New York Times Service

KABUL, Afghanistan — The champ shook out his massive shoulder muscles as the banders stepped back. He glared at his opponent, bounding toward him from the far side of the ring, his breathing already heavy.

Barking, he went for the throat. There was a hush as more than a thousand men, Afghans with hard, lined faces, leaned forward intently to watch the two battling dogs. Handlers carrying the wreath of flowers that had been draped over the champion scrambled to get out of the way.

The dogfights, accompanied by the exchange of money, are held every Friday — the Moslem Sabbath — in a big field in the center of this dusty capital.

The fighting was more a wrestling match than the fierce combat associated with pit bulls. Rearing on their hind legs, the dogs tried to lasso their opponent to the ground. As they fought, their owners and handlers pushed and shouted. The champion soon forced his challenger down and new pairs of canine contestants were matched.

"We also have a very interesting sport in the north of the country — camel fighting," an Afghan spectator said. "Two male camels fight in front of a lady camel."

An Asian diplomat, shaking his head, said: "These people just love fighting. It's impossible to imagine Afghanistan without fighting. When the Soviets came, they were very happy to have somebody else to fight."

Waves of invaders — Greeks under Alexander, nomadic tribes from central Asia, Arabs, Persians, Genghis Khan's Mongols and, later, British and Russians — have swept into these rugged mountains and met implacable resistance.

Rudyard Kipling, Britain's poet of empire, paid a kind of backhanded tribute to the locals' ferocity in the 19th century:

"When you're wounded and left on Afghanistan's plains,
And the women come out to cut up what remains,
Jest roll to your rifle and blow out your brains,
An' go to your Gawd like a soldier."

The Afghans are hardly less harsh on themselves. The country is a patchwork of rival tribes and ethnic groups — the majority Pathans, Tajiks, Uzbeks, Turkomans, Baluchis and an underclass of Shiite Moslems known as Hazaras — united only by their distrust of central government, by their hatred of foreigners and, of course, by Islam.

The blood feud is a way of life. But a French scholar, Olivier Roy, makes the point that it is not a feudal society; it lacks such formal, structured relations of authority. Successive kings, like today's Communist rulers, were unable to im-

pose their will on tribal chiefs and village mullahs. Neither the Communists nor the Islamic guerrillas, known collectively as mujahidin, or holy warriors, are immune to squabbling. A major reason for the Soviet sweep into Afghanistan at the end of 1979 was factional fighting among Moscow's local proxies, including a gunfight at a party meeting in which Nur Mohammed Taraki, then the party leader, was overthrown by supporters of his rival, Hafizullah Amin, who was later slain by the Russians.

What will happen, a government employee was asked, when the 115,000-odd Soviet soldiers leave? "A bloodbath," he said.

Machine-gun fire began the second day of the Loya Jergah, a traditional gathering of elders — in this case mostly party regulars — that Moscow's current Afghan leader, Major General Najib, who is a former secret police chief, called last month to legitimize his regime.

One of the delegates, who had tried to attend with his customary retinue of armed bodyguards, was when the police objected, are believed to have been killed.

The national sport of Afghanistan, besides pitting animal against each other, is *buzkashi*, a game in which horsemen try to pick up the headless body of a calf fighting off rival riders who try to grab it away. The race over course and drop it in a goal zone. The game used to be played by the (initially) live body of a captured enemy, and some older are said to regard the substituting of the calf as something on order of the introduction of tur-

4 Hurt in Bombing at Manila Airport

MANILA — A car bomb exploded Tuesday at Manila international airport injuring at least four persons, in what officials said appeared to be an attempt to disrupt a regional summit meeting set for next week.

A second, smaller explosion in the city's financial district was reported about 30 minutes after the 7 P.M. airport bombing. No one was injured.

Aurelio German, an airport manager, said the bomb had been planted in a car parked outside a restaurant near the departure area. Mr. German said he believed the bomb was intended to frighten away participants in next week's summit conference of the Associa-

tion of South East Asian Nations. Some rightist groups have warned that they will attempt to disrupt the ASEAN meeting to embarrass the government. The organization includes the Philippines, Indonesia, Thailand, Malaysia, Singapore and Brunei.

Candidate Murdered

Gunmen killed a candidate in next month's local elections Tuesday in an ambush near Manila, and other men thought to be Communist guerrillas killed a reputed police informer in a Manila suburb, the police said as reported by The Associated Press.

A sketchy police report from Pampanga province identified Tuesday's victim as Pacific Matias, a candidate for mayor in Lu-

bao, 35 miles (55 kilometers) north of Manila.

In the Manila suburb of Cainta, the police reported capturing three men alleged to be Communist assassins shortly after they killed Rene Cayetano and wounded a companion. Both men, shot while walking in a residential area, were described as police informers.

Philadelphia Prelate Named

VATICAN CITY — Pope John Paul II has named Bishop Anthony J. Bevilacqua of Pittsburgh as archbishop of Philadelphia, the Vatican announced Tuesday. Cardinal John Krol, 77, has resigned as archbishop because of age.

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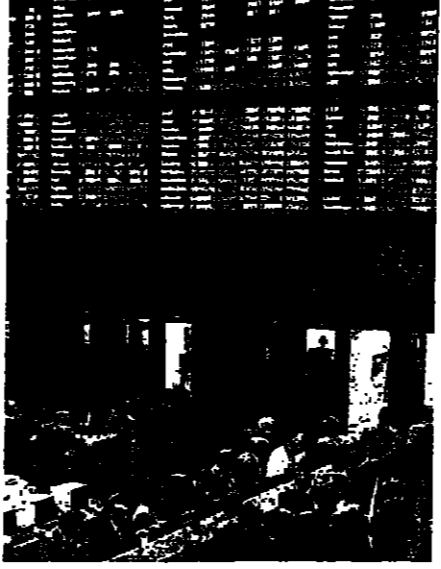
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THE WASHINGTON SUMMIT: A Disparate Array of Demonstrators as Historic Talks Begin

Gorbachev's Visit Brings Out Banners

By Bernard Weirraub

New York Times Service

WASHINGTON — There were Ukrainian-Americans gripping black balloons as they denounced Mikhail S. Gorbachev. There were conservative women's groups supporting the Strategic Defense Initiative. There were demonstrators seeking less money for missiles and more for AIDS research. There were immigrants from Vietnam, Ethiopia and Afghanistan.

And there was Edwin Wagner, a 35-year-old beekeeper from New Castle, Delaware, who carried a sign above his bicycle reading: "Dec. 8 — John Lennon Lived and Died for This Day."

"We knew what John Lennon stood for. Give peace a chance," said Mr. Wagner, standing in Lafayette Park, across from the White House. "And that's what's happening Dec. 8. Gorbachev and Reagan are giving peace a chance."

Lafayette Park, the landscaped rectangle facing the White House, was crammed Monday with an array of demonstrators. The largest number, hundreds of Ukrainian-Americans, concluded their protest with a march along 16th Street toward the Soviet Embassy that ended at a police barricade more than a block from the mission.

Summit Schedule

United Press International

WASHINGTON — Major events during the meeting between President Ronald Reagan and the Soviet leader, Mikhail S. Gorbachev (all times GMT).

Wednesday, Dec. 9

1400: Mr. Gorbachev meets congressional leaders.

1530: The third Reagan-Gorbachev session begins.

1630: Raisa Gorbachev gets a White House tour.

1800: Secretary of State George P. Shultz holds a luncheon for Mr. Gorbachev.

2400: The Gorbachevs hold a Soviet Embassy dinner for the Reagans.

Thursday, Dec. 10

1400: Vice President George Bush holds a breakfast for Mr. Gorbachev.

1530: The fourth Reagan-Gorbachev meeting begins.

1700: Mr. Reagan and Mr. Gorbachev have lunch together.

1900: A White House departure ceremony begins.

Later: Mr. Gorbachev holds a news conference.

0100 (Friday): Mr. Gorbachev departs.

0200: Mr. Reagan addresses the American people.

[Thirty protesters were arrested Tuesday. The Associated Press reported. All were taken into custody peacefully.]

[Fifteen Jewish protesters were arrested for demonstrating within 500 feet (150 meters) of the Soviet Embassy. Fifteen Afghans, who broke off from a larger demonstration, were arrested in Lafayette Park, because they were demonstrating without a permit, the National Park Police said.]

The protests marked the start of demonstrations and vigils that will continue in Lafayette Park and elsewhere until Thursday, the day Mr. Gorbachev is scheduled to leave the United States. At the National Cathedral, hundreds gathered for a prayer vigil for peace that began Sunday with the lighting of an eight-foot candle.

In Lafayette Park, the scene was a bit of a circus. American Buddhist monks in saffron robes sat cross-legged, chanting peace hymns, while Ukrainian demonstrators shrieked that Mr. Gorbachev was an "archdeceiver" and a "butcher."

A dozen representatives of four conservative national women's organizations, who claimed a collective membership of 750,000, began the protests in Lafayette Park in the morning with expressions of support for President Ronald Reagan's space-based missile defense system, called the Strategic Defense Initiative, and some blunt attacks on Mr. Gorbachev. The women carried broken umbrellas without fabric that symbolized, they said, the United States without missile defenses.

"We have no nuclear umbrella, we have no system to save American lives, it's immoral, it's unacceptable, and that's why we need the Strategic Defense Initiative," said Phyllis Schlafly, president of the Eagle Forum.

As she spoke, a woman in a fur hat, Winnie Gallant, who described herself as a member of Lafayette Park's continuing peace vigil, walked in front of a banner next to Mrs. Schlafly and removed her coat and jacket. "Peace is the shield," she said. "You don't need an umbrella." Then she said: "Thirty years ago I would have gone all the way" in disrobing.

In the park, Afghans in native dress marched past, and Vietnamese handed out leaflets denouncing Mr. Gorbachev. Mrs. Schlafly was asked how she felt seeing the United States flag and the Russian flag flutter in front of the White House. "At least the U.S. flag is on top," she said.



NO FAN OF GORBACHEV — A demonstrator in Washington's Lafayette Park holding up a poster protesting the presence of an estimated 115,000 Soviet troops in Afghanistan.

Kremlin to Disband 'Anti-Zion' Panel

New York Times Service

WASHINGTON — The Soviet government is planning to disband its officially sanctioned Anti-Zionist Committee, which has been an irritant in relations between the Kremlin and Jews in Israel and in the United States since it was created more than four years ago, a U.S. official said Monday.

The official, as well as Soviet Jewish émigrés and an American Jewish leader, suggested that the plan was recognition by the Kremlin that the committee was an embarrassment and had failed in its avowed purpose, which was to publicize the Soviet campaign to equate Zionism with racism.

"I don't think it means much," said the official, who spoke on condition of anonymity. "In terms of overt activity of an anti-Semitic nature, they may want to end that. That doesn't mean they won't continue it in a surreptitious fashion."

The official said he was informed of the plan to dissolve the Anti-Zionist Committee of the Soviet Public by its deputy chairman, Samuel Ziv, who is in Washington for the summit meeting between President Ronald Reagan and Mikhail S. Gorbachev, the Soviet leader.

Mr. Ziv declined to publicly confirm or deny the report, but he said "there is a possibility" the committee would be disbanded. "No public organization can last forever," he said.

A Soviet official said plans had been announced in the Soviet Union for a new committee that would focus on a wide range of human rights issues and suggested that the Anti-Zionist Committee

could be incorporated into that organization.

"It's not a gesture to anyone," the official said. "The idea is to take a broader approach to all humanitarian problems, to find new ways of doing things."

The Anti-Zionist Committee was formed in April 1983 and is referred to as a "public organization," meaning it purportedly is not a government organ. But the committee held press conferences at Foreign Ministry facilities and published pamphlets, through government-run printing houses, that many Jews considered profoundly anti-Semitic.

Soviet Expert, Assailing U.S. View, Claims Only 200 Await Exit Visas

Reuters

WASHINGTON — A Moscow legal expert said Tuesday that only 200 Soviet citizens were awaiting permission to emigrate, and he accused Americans of a profound misunderstanding of the emigration issue.

Vladimir L. Kudriavtsev said at a meeting of Soviet and American academics at the National Academy of Sciences in Washington that he had recently asked the Soviet Interior Ministry how many people with applications to leave had not received permission.

"I went to the Interior Ministry and was told there were only 200 cases of delayed exit visas," said Mr. Kudriavtsev, a member of the Soviet Academy of Sciences. "Some people got permission half a year ago to leave but they have not left."

"When people give fantastic figures like 4,000 or 40,000 or 400,000, I say these are fantasy and nothing more."

Jewish lobbies in the United States assert that up to 400,000 Soviet Jews would emigrate if given the opportunity.

Mr. Kudriavtsev criticized a demonstration Sunday in Washington by more than 200,000 American Jews and their supporters that was designed to call attention to the issue of Soviet Jewry ahead of the U.S.-Soviet summit meeting.

"That demonstration you had a couple of days ago in Washington — there is some kind of dramatic misunderstanding of the problem," Mr. Kudriavtsev said.

Jews Held in Moscow

The police in Moscow detained 14 Jews on Tuesday when they attempted to demonstrate against Soviet emigration policy, a Jewish activist said, according to a Reuters report from the Soviet capital. Two of the protesters were charged with resisting the authorities, the activist said.

Afghan Guerrilla Will Oppose Any Deal on Troop Pullout

The Associated Press

PESHAWAR, Pakistan — An Afghan guerrilla leader has said he will oppose any deal made during the summit meeting in Washington for the withdrawal of Soviet troops from Afghanistan.

Gulbuddin Hekmatyar of the Hezb-i-Islami, one of the seven main Afghan guerrilla groups, said the goal of the anti-communist rebels — an Islamic government — disturbs both Washington and Moscow.

"For this reason Reagan and Gorbachev are trying to establish a third government, a non-Islamic government inside Afghanistan," he said at a Peshawar rally on Monday.

There was no immediate reaction from the six other Afghan leaders of the Peshawar-based Alliance of Resistance.

Mr. Hekmatyar was speaking at a noisy rally attended by an estimated 5,000 people at Eid Gah mosque in Peshawar.

Apparently alluding to the United States, he said, "We will let no one speak on our behalf to the Russians. We are responsible as a nation and we will decide the government we want." He said it is up to the Russians and the Mujahidin resistance fighters.

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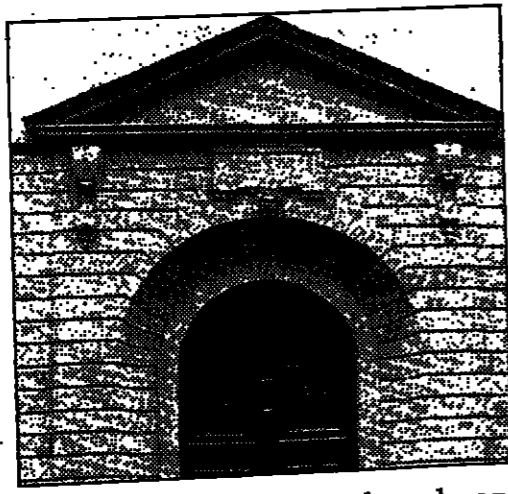
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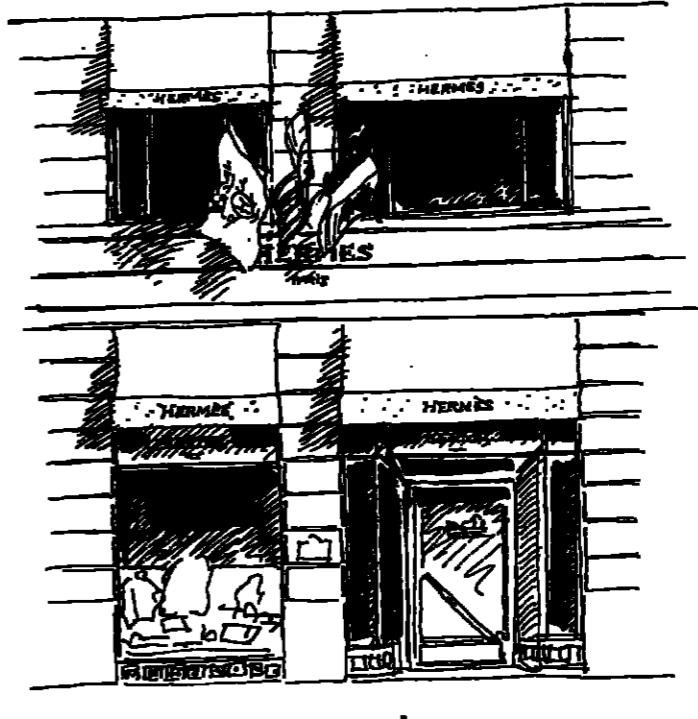
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THE WASHINGTON SUMMIT: Moscow Crowds Watch Highlights of Signing Ceremony via Satellite



Mikhail S. Gorbachev and Ronald Reagan matching smiles on Tuesday at the White House.

Abroad: Anxiety, Cynicism and Optimism Mingle

By Barry James International Herald Tribune

Crowds packed into a Moscow avenue Tuesday night to watch highlights of the U.S.-Soviet summit meeting on a giant outdoor screen. The pope prayed for the meeting, and residents near a Sicilian missile base celebrated the impending departure of 112 NATO cruise missiles.

The Paris newspaper Liberation lapsed into *Franglais* to hail "Le New Deal" between the superpowers.

After signing a landmark treaty eliminating a whole class of nuclear weapons for the first time since the dawn of the atomic age, Mikhail S. Gorbachev addressed his countrymen directly by television. People gathered in sub-freezing weather on the slushy sidewalk of Kalinin Prospekt near the Kremlin to watch the signing ceremony and the speech on a billboard-sized screen. Cars slowed or halted.

Earlier, people stood in front of the screen and crowded into television stores to watch Mr. Gorbachev and President Ronald Reagan exchange speeches on the White House lawn in a rare live broadcast from abroad.

The summit dominated the news everywhere, particularly in Western Europe. "The signing of the Treaty will end a discussion that

has concerned the Western alliance for the last 10 years," the conservative Frankfurter Allgemeine Zeitung newspaper said in West Germany.

Prime Minister Margaret Thatcher of Britain "had her special relationship to keep her warm" following Mr. Gorbachev's stopover in Britain on Monday, said the London newspaper The Independent. She took some credit for the treaty, telling Parliament "but for the firmness of this country and NATO, this agreement would never have been signed." But other Europeans apparently felt they had

East German, Yugoslav Welcome Arms Accord

BERLIN — President Erich Honecker of East Germany and Prime Minister Branko Mikulic of Yugoslavia said Tuesday that they believed that the U.S.-Soviet arms deal would bring greater stability and trust to international relations.

The East German press agency ADN said the two leaders believed that the intermediate nuclear forces agreement would "have a favorable effect on the international climate and lead to more stability and trust."

been left in the cold, according to some editorialists.

The conservative Paris newspaper Le Figaro published a cartoon showing Mr. Gorbachev and President Reagan stripping the lingerie from a coy-looking maiden identified as Europe. The cartoon was headed "Washington Circus."

For the Asahi Evening News of Tokyo, the summit meeting combined "high hopes" with "anxiety" about the future course of disarmament. But the newspaper added, "It is heartening to see this sort of common sense being reflected in the superpower accord to abolish intermediate-range nuclear forces. And even though these missile systems form only a small part of the world's nuclear arsenal, the accord still rates as one of the most significant in the history of disarmament."

Not all the reaction was so enthusiastic. The Chinese news agency Xinhua said the summit was "a new round of haggling between rival superpowers," and the Kenya Times said, "What the world clamors for is peace, not spectacular stage-managed shows."

The Times of London warned against the "rise of hyperbole" surrounding the signing of the INF treaty and said in an editorial: "More than 95 percent of the nuclear weapons now in place will

remain in place, and the East-West imbalance in conventional weapons in Europe will stand out even more starkly than before."

In Cairo, Salah Montasser, a columnist for Egypt's main daily paper, Al-Ahram, said Mr. Gorbachev should get the Nobel Peace Prize but not Mr. Reagan.

Mr. Reagan was "the last man to think of peace," said Mr. Montasser, citing the invasion of Grenada, the bombing of Libya and the sale of arms to Iran. But he added that the agreement would help Mr. Reagan "sail through the remaining year of his presidency and to enter the museum of history."

In St. Peter's Square, Pope John Paul II led prayers he said were "particularly fervent and insistent" for the success of the summit. Even in Tehran, where the United States

is usually referred to as "the Great Satan," the speaker of the parliament, Hashemi Rafsanjani, called the treaty signing "a positive development."

Residents at Comiso in Sicily hailed the INF agreement and said the cruise missiles and American crews stationed on their doorstep had never brought the prosperity they had hoped for. Peace movement campaigners popped champagne corks outside the Soviet and American embassies in London and demonstrated outside the Woensdrecht Air Force base in the Netherlands.

In Spain, pacifists and a movement seeking the withdrawal of American forces gave two cheers for the INF accord, and released 200 doves — grey, not white, to match their cautious hopes.

REAGAN: Words of Welcome

(Continued from Page 1)

ments and systems — differences that will not go away by wishful thinking or expressions of goodwill, no matter how sincerely delivered.

This uncomfortable reality need not be reason for pessimism, however, it should provide us with a challenge — an opportunity to move from confrontation toward cooperation.

Mr. Gorbachev, "Mir na nas smozhit," the world is watching. And we've got something to show them. And over the next few days, it is my hope that progress will be made toward achieving another agreement that will lead to the cutting in half of our strategic nuclear arsenals.

Well, during the second World War, Soviet General, later Marshal, Chuikov, a frontline commander, liked to tell the story of a soldier who said he had captured a bear, and he was asked to bring it along. "I can't," replied the soldier. "The bear won't let me."

Well, General-Secretary Gorbachev, like the soldier in Marshal Chuikov's story, our peoples for too long have been both the masters and the captives of a deadly arms race. This situation is not preordained, and not part of some inevitable course of history.

We make history, changing its

direction is within our power. However, such change is not easy and can be accomplished only when leaders of both sides have no illusions, talk with candor, and meet differences head-on.

On the table will be not only arms reduction but also human rights issues about which the American people and their government are deeply committed. These are fundamental issues of political reality that touch on the most basic of human concerns.

I would hope we will also candidly discuss regional conflicts. The parties to these conflicts should negotiate solutions that restore the peace and advance the rights and freedom of the people involved. We cannot afford to view these as far-away brush fires. Even small flames risk larger conflagrations and undermine positive developments between our two countries.

Americans believe people should be able to disagree and still respect one another, still live in peace with one another — that is the spirit, the democratic spirit, that I will bring to our meetings.

So, on behalf of myself and Mr. Reagan, and on behalf of all the citizens of the United States, General-Secretary Gorbachev, Mr. Gorbachev, welcome.

The Associated Press

GORBACHEV: View of History

(Continued from Page 1)

Soviet foreign policy today is most intimately linked with perestroika, the domestic restructuring of Soviet society. The Soviet people have boldly taken the path of radical reform and development in all spheres — economic, social, political, and intellectual.

Democratization and glasnost are the decisive prerequisites for the success of these reforms.

Mr. President, ladies and gentlemen, may I express the hope that the Soviet Union and the United States, working together with all nations, will take their place in the history of the outgoing 20th century not only as allies in the battle against Nazism but also as nations that have paved mankind's way to a safe world, free from the threat of nuclear annihilation.

On behalf of the Soviet people, I declare that we are prepared to go all the way along our part of the road with the sincerity and responsibility that befit a great and peaceful power. Thank you.

The Associated Press

SUMMIT: Leaders Sign INF Pact

(Continued from Page 1)

U.S. agenda, which includes human rights, U.S.-Soviet questions and regional conflicts.

Of the regional conflicts, which include Afghanistan, the Gulf, southern Africa, Cambodia and Central America, Mr. Reagan said: "We cannot afford to view these as far away brush fires. Even small flames risk larger conflagrations and undermine positive developments between our two countries."

Mr. Gorbachev, in a similar vein, said that "history is reminding us both of our opportunities and of our responsibility."

For his part, he declared on behalf of the Soviet people that "we are prepared to go all the way along our part of the road with the sincerity and responsibility that befit a great and peaceful power."

As did Mr. Reagan, Mr. Gorbachev spoke of the wide and intense differences between the two governments and their societies. Mr. Gorbachev added, however, that "the wisdom of politics today lies in not using those differences as a pretext for confrontation, enmity and the arms race."

In addition to foreign policy, Mr. Gorbachev used the occasion of the arrival ceremony, broadcast widely throughout the world, to speak of his hopes for perestroika or the domestic restructuring of Soviet so-

ciety, and of his internal policies of glasnost, or openness.

Calling the changes that he is introducing irreversible, Mr. Gorbachev linked his domestic policies to the need for international tranquility, saying that "in charting these ambitious plans the Soviet people have a vital stake in pressing and strengthening peace everywhere."

The remarks and a military review completed, the two leaders turned around to the applause of several hundred invited spectators and the blare of trumpets and walked into the White House to begin their talks.

Although the treaty eliminates no more than 7 percent of the superpowers' nuclear warheads, it could provide a model for a more complex and critical agreement on strategic nuclear weapons, proponents say.

It requires the two nations actually to destroy some existing missiles.

For the first time, it permits inspectors from both sides to monitor the destruction of weapons and to set up checkpoints at missile production plants, to make sure there is no cheating.

It requires both sides to provide more detail than ever before on production, deployment and location of specific missile systems.

SCENE: Pageantry and Promises

(Continued from Page 1)

tical to the ones worn by the president — which portray the prophet Isaiah beating swords into plowshares. Mr. Fitzwater said Mr. Reagan expressed hope that the symbolism would apply to the summit talks.

As he has before, Mr. Gorbachev looked intently at the Western correspondents who questioned him during the photo session and answered them at some length. He said "I have heard some new words in the president's welcoming remarks, and I welcome this."

The two leaders met for 33 minutes alone, accompanied only by

note-takers and interpreters. They then called in their top lieutenants, who had been waiting nearby in the cabinet room. Mr. Reagan told aides later the first meeting had "no blemishes."

Later, the two leaders walked together down a red-carpeted foyer to the East Room of the White House to sign the INF agreement. The ceremony was celebratory. Mr. Reagan repeated the Russian saying "trust but verify" and Mr. Gorbachev retorted, "You repeat that at every meeting!"

The audience broke into laughter. "I like it," Mr. Reagan said.

We bring back fond memories.



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THE WASHINGTON SUMMIT: Nancy Reagan Receives Raisa Gorbachev at the White House



Flanked by their husbands, Nancy Reagan and Raisa Gorbachev shake hands at the White House on Tuesday.

Raisa's Day: A Breathless Race By Washington's Landmarks

By Elizabeth Kastor Washington Post Service WASHINGTON — The collected public remarks of Raisa Gorbachev for Dec. 8, 1987, consist of the following statements made on the steps of the Lincoln Memorial: Answering requests for a few words: "I've got too little time." Answering queries of how she liked the United States: "Oh, it's lovely!"

Commenting on what she would like to see on her visit: "All of Washington." She then rejoined Helene Shultz, wife of the U.S. secretary of state, in their motorcade and proceeded to see not all but some of Washington at a pace definitely surpassing the speed of effective tourism.

Her day began with the arrival ceremony at the White House, where journalists attempted to gauge the relative warmth of her relationship with Nancy Reagan — who was upset by Mrs. Gorbachev's tardiness in responding to her invitation to tea and has reportedly found Mrs. Gorbachev uninterested in talking about drug abuse and children. The chief measure of the relationship was the distance between the two women, both clad in fur, as they listened to their husbands speak.

The two then adjourned to the White House's Green Room, where they indulged in tea, coffee, orange juice and very small pastries along with Barbara Bush, wife of Vice President George Bush; Helene Shultz; Rebecca Matlock, wife of Jack F. Matlock Jr., the U.S. ambassador to Moscow; and Liana Dubinin, wife of Yuri V. Dubinin, the Soviet ambassador to the United States.

Over the next 20 minutes, they had a wide-ranging discussion of the history of Washington, the history of Russia (Elsie Crispin, her press secretary, said Mrs. Reagan found this very interesting), the weather, and where Mrs. Gorbachev should go on her trip through the city with Mrs. Shultz.

Highly placed sources disclosed that Mrs. Reagan wore a brown Bill Blass dress trimmed in leather. Mrs. Gorbachev's outfit has been described simply as a white-two piece dress. Ms. Crispin said Mrs. Reagan described the reception as "very pleasant" and quoted her as saying Mrs. Gorbachev was "very nice."

On Monday, Mrs. Reagan sidestepped questions about reports contained in a book written by Larry Speakes, a former White House spokesman, that Mrs. Reagan and Mrs. Gorbachev do not get along.

Asked Tuesday if "they like each other better," Ms. Crispin replied: "No one said they didn't before." Gennadi I. Gerasimov, a Soviet spokesman, had said at a briefing that Mrs. Gorbachev would be "busy," but he provided no details of her schedule. "She will be invited to tea parties at the White House

and other social engagements," he said. Asked if she will go shopping, as she did on her first trip to Britain, Mr. Gerasimov said: "It's not on the program. Her program is so tight, she will have no time." But there was talk of visits to a shopping mall and the fashionable Neiman-Marcus department store, but in the end Mrs. Gorbachev spent her few free moments speeding past Washington landmarks while disappointed Raisa-watchers stared at the 211 limousine vanished into the distance.

Soviet Says Air Power Should Be Negotiated

By Michael R. Gordon New York Times Service WASHINGTON — A senior Soviet military official has sharply criticized the new American approach for reducing conventional arms.

In the first official Soviet response, Colonel General Nikolai F. Chervov said the U.S. approach was seriously flawed because it did not include tactical aircraft or helicopter gunships, areas in which General Chervov asserted that the North Atlantic Treaty Organization held an advantage.

"This is the wrong approach," General Chervov, the head of the arms control directorate of the Soviet General Staff, said in an interview.

The United States is consulting with its NATO allies on what proposal to make in talks that will be held next year on conventional arms in Europe, from the Atlantic to the Urals.

Those talks have assumed special importance because of the treaty banning medium- and short-range missiles, signed in Washington on Tuesday by President Ronald Reagan and Mikhail S. Gorbachev. Critics have said that the missile treaty will leave the Warsaw Pact with an advantage in conventional arms while the West's nuclear deterrence is reduced. The Reagan administration says it will try to rectify this imbalance in the new talks.

Under the American approach, Soviet-bloc nations would have to reduce the number of their tanks and artillery pieces to match NATO — a cut of more than 50 percent for the Soviets.

No limits would be sought on tactical, or attack, aircraft, an area where NATO has a technological advantage.

"They would only like to deal with land armed forces and tanks only," General Chervov said. "But surely this is not a fair approach. Naturally if we are willing to reduce the number of our tanks, then NATO should be willing to reduce the number of aircraft."

He added that helicopter gunships as well as planes should be included.

General Chervov asserted that NATO had a "qualitative and quantitative" advantage in strike aircraft and helicopters.

But Reagan administration officials disputed this assessment. They said that NATO and the Warsaw Pact had roughly the same number of attack aircraft. Officials also asserted that the Warsaw Pact had more bombers and interceptors. And they argued that the Warsaw Pact had more armed helicopters than NATO.

General Chervov said that the two sides should approach talks by first trying to "identify the imbalances." After that the two sides should see "what should be traded off for what."

Charles H. Thomas, a senior State Department official, told reporters that he did not expect the subject of conventional arms to be a central issue at the Reagan-Gorbachev summit meeting since NATO and the Warsaw Pact had not yet developed formal positions and the general procedures for how to carry out the talks has not yet been worked out. But he did not exclude the possibility that it could be raised at the summit meeting.

Mr. Thomas said that he did not expect the top Soviet negotiator on this issue to attend the meeting.

General Chervov said that the issue of conventional arms would probably be raised. "We would like our two leaders to find common ground on this particular question at the meeting here," he said.

ALLIES: Dutch Decision

(Continued from Page 1) missiles as "the most stringent in history."

Foreign Minister Joe Clark of Canada, visiting Oslo, rejected fears by Norway that the treaty might be followed by a buildup of sea- and airborne nuclear missiles on NATO's northern flank.

"I don't think the INF pact creates a particular vulnerability on the northern flank," he said. But it is possible, he added, that Canada may have to consider building up or modernizing its 85,000-member armed forces.

President François Mitterrand of France, whose nuclear strike force is not affected by the treaty, urged the superpowers to prevent an arms race in space.

"The strings of satellites around and above our heads, passing their time watching what you do in the garden, are there to intervene at any moment to destroy," he said in a speech. "If we do not disarm, then we must arm in this fashion, and it will ruin us."

Prime Minister Jacques Chirac of France said the treaty will be positive "if it is followed by other agreements that permit strengthening of security of the world and of Europe."

A treaty limiting strategic, or long-range, weapons, "that, yes, would be historic," Mr. Chirac said in a television interview. (AP, Reuters, AFP)

SUMMIT BRIEFS

South African Paper Warns Reagan

CAPE TOWN (Reuters) — The newspaper closest to the South African government has warned President Ronald Reagan in an unusually disparaging editorial against making a deal with the Soviet Union on Angola, where about 35,000 Cuban troops are supporting the Marxist government.

The paper, Die Burger, said Monday that Mr. Reagan had promised to raise the question of Soviet involvement in Angola at his summit talks with the Soviet leader, Mikhail S. Gorbachev.

It warned the leaders that "as previous attempts have shown," any agreement on southern Africa that does not take account of South Africa's prominence as a regional power, as well as of its vested interests, has scant chance of success. The editorial added that it would be dangerous for South Africans "to rely too much on the renewed anti-Communist resolution of President Reagan. Especially when, as now, the United States' own interests are at stake."

Pravda Says Soviet-U.K. Ties Improve

MOSCOW (Reuters) — Pravda, the Soviet Communist Party daily, said Tuesday that Soviet-British relations had improved, and it praised Prime Minister Margaret Thatcher of Britain.

On its front page, the newspaper carried a picture of Mrs. Thatcher with Mikhail S. Gorbachev, the Soviet leader, during his stopover Monday in Britain on his way to Washington for the U.S.-Soviet summit meeting.

The report said Mr. Gorbachev's talks with Mrs. Thatcher had been conducted "in the usual frank, friendly and open manner," and noted that relations between the two countries had improved in recent years. "In this process," Pravda said, "considerable value and importance is attributable to the constructive position taken by Margaret Thatcher all these years, despite the natural differences existing between our states."

At Dinner, Stars but No Ex-Presidents

WASHINGTON (UPI) — Stars from Hollywood and the worlds of music and sports were on the guest list for the White House state dinner Tuesday night for Mikhail S. Gorbachev and his wife, Raisa. Notably absent were the three living former U.S. presidents: Richard M. Nixon, Gerald R. Ford and Jimmy Carter.

The 126 guests invited included the actors Jimmy Stewart and Claudette Colbert, the musicians Mstislav Rostropovich and Zubin Mehta, the athletes Chris Evert and Mary Lou Retton, and the evangelist Billy Graham. Van Cliburn, who in 1958 became the first American to win the Tchaikovsky piano competition in Moscow, was to play after dinner.

In a departure from tradition, "because of the history-making nature of the event," a White House official noted that President Ronald Reagan and his wife, Nancy, would attend a dinner given Wednesday night by the Gorbachevs at the Soviet Embassy. Ordinarily Vice President George Bush would attend such a dinner.

For the Record

Prime Minister Noboru Takeshita of Japan said Tuesday in Tokyo that he welcomed the U.S.-Soviet arms agreement, adding that he hoped the superpowers also would make progress toward the reduction of strategic nuclear weapons.

Foreign Minister Alois Mock of Austria welcomed the U.S.-Soviet nuclear missile treaty on Tuesday as a political signal for further disarmament in the areas of conventional and chemical weapons.

Mikhail S. Gorbachev topped President Ronald Reagan in popularity among West Europeans questioned in an NBC News poll on the eve of the summit meeting, the network said Monday. It did not say how many people in Britain, France and West Germany were polled. (Reuters)

SENATE: Pact Approval Expected

(Continued from Page 1)

Senator Bob Dole, is trying to remain uncommitted as long as possible, a tactic that makes him a prime target for the conservative Republicans who oppose the agreement.

One conservative said of Mr. Dole: "He needs to know that if he opposes the treaty even a little bit he will maintain the support he has courted. If he cuts a deal with the administration, not only will he lose the conservatives, but he will not gain anybody from Bush."

So far, only three Republican senators — Jesse Helms of North Carolina, Steven D. Symms of Idaho, and Larry Pressler of South Dakota — have indicated that they are likely to oppose the treaty.

But strategists are hoping to exploit the concerns of more moderate senators to prolong the approval process.

"Our game is delay it and keep it

200 in Madrid Celebrate Pact

The Associated Press

MADRID — An estimated 200 pacifists gathered in the Spanish capital Tuesday to celebrate the signing in Washington of the U.S.-Soviet accord to eliminate intermediate-range nuclear missiles.

from coming to the floor for a vote, as we did with SALT-2," said one, referring to the 1979 strategic arms treaty, which was stalled for more than four months in the Foreign Relations Committee.

Although many of its provisions and the verification details have been disclosed, senators will not see the final text until later this week. Hearings in the Foreign Relations, Armed Services, and Intelligence Committees will not begin until mid-January.

"The important count is not how many votes there will be for it, but how many votes there will be to withstand killer amendments," said Senator Alan Cranston of California, the chamber's second-ranking Democrat. "Killer" amendments are those that would so substantially alter the treaty that it would have to be renegotiated with Moscow.

While 67 votes are required to approve the treaty, only 51 are needed to amend it. Mr. Cranston estimated that 10 to 20 senators might vote against it and 50 seemed inclined to vote for it.

The State Department, which is consulting with senators who expect to offer amendments or reservations, has set up a team to keep track of potential amendments that fall into the killer category.



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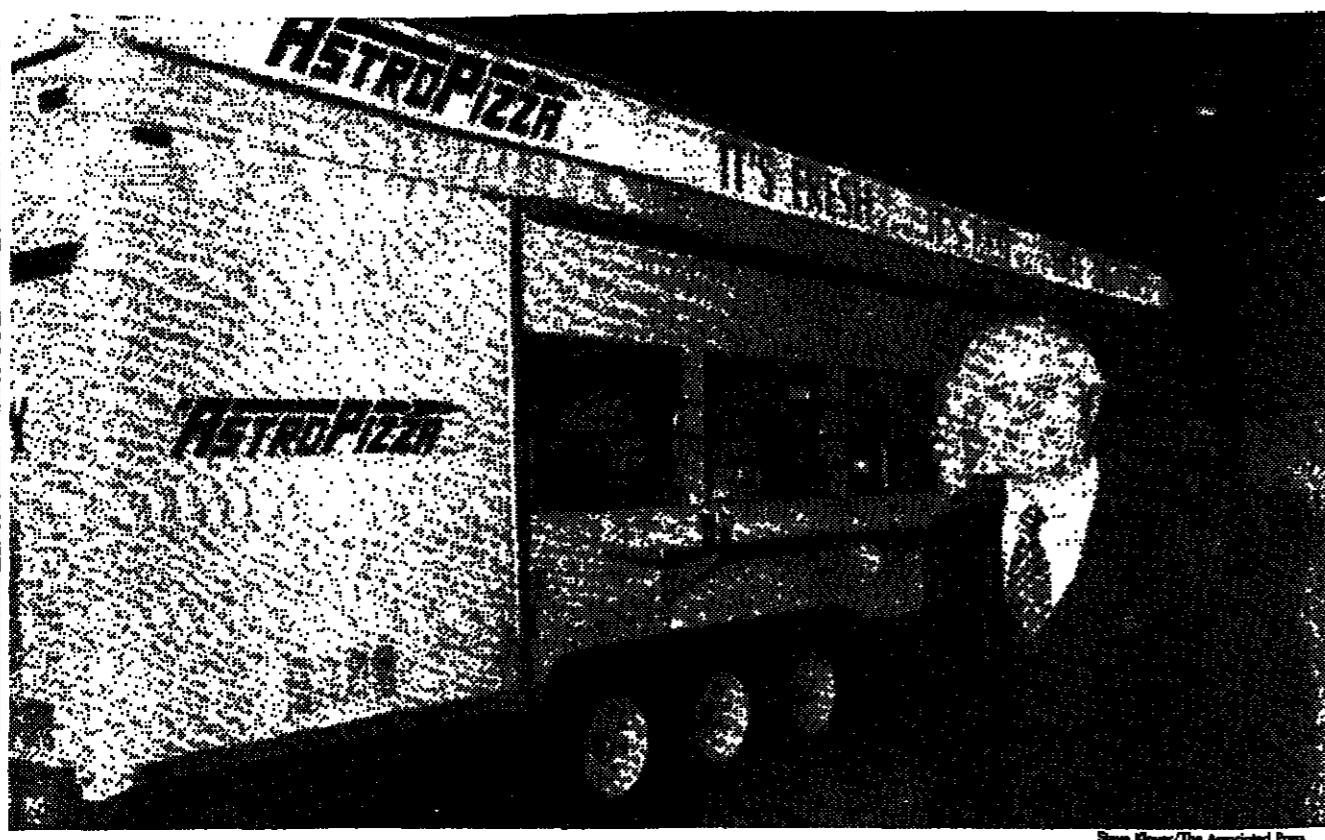
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AMERICAN TOPICS



PIZZA TO GO, TO MOSCOW — Louis Piancone Sr. standing in front of an oven-equipped pizza van that will be sent from New Jersey to the Soviet Union in Janu-

ary. Mr. Piancone's company, Roma Food Enterprises of Piscataway, received permission to sell pizzas on the streets of Moscow under the trade name Astro Pizza.

Retirees Resettling In College Towns

Retired people in the United States are beginning to bypass retirement villages or Sun Belt resorts in favor of taking up residence in college towns where, The New York Times notes, "the life is full and housing is often reasonably priced."

When John K. Kirtledge retired last month as an insurance executive, he and his wife, Betty, sold their house in Summit, New Jersey, and moved to Chapel Hill, North Carolina, home of the University of North Carolina, although they had no ties there.

"We wanted a temperate climate with fewer people than the New York area but also wanted to avoid the golf and tennis communities that are basic for retired people," Mr. Kirtledge said. "But what we especially wanted was a place that offered a wide choice of cultural events as well as good shops and restaurants, and a college town was perfect."

Retired people also find that college towns usually have cheap-

er housing than the places they leave, as well as stable, middle-class populations and low crime rates. Many have excellent hospitals affiliated with the local medical schools, a matter of particular importance to the elderly.

But the retirees have driven up housing prices. "We welcome them all," said James O. Freedman, president of Dartmouth College in Hanover, New Hampshire, "but they have made it all but impossible for junior faculty to find affordable housing near campus."

Short Takes

The New York City Landmarks Preservation Commission has been moving rapidly to protect the theater district, which is growing more hospitable to 40-story office towers than 1,000-seat playhouses. A month ago, six Broadway theaters had landmark status. Now that figure is 21 and climbing. The designation means a building may neither be torn down nor substantially altered unless the owner can prove eco-

nomic hardship. Not all theater owners are happy about their landmark status, although in general they can sell "air rights," the unused development potential represented by their buildings, to developers of adjacent properties.

Christopher Aaron had his picture taken standing in front of marijuana plants on his property near Walled Lake, Michigan. The drugstore where he took the film to be processed notified the police. Mr. Aaron, 28, his girlfriend and four neighbors were arrested after state troopers found about 80 pounds (36 kilograms) of marijuana in garden patches near their two houses.

Shorter Takes: Firefighters in Rowland Heights, California, returning from a blaze, found that an electric stove had been left on and had set fire to their firehouse. Damage was estimated at \$250,000. Lord, a German Shepherd who worked with the Shreveport, Louisiana, police, has been laid off because he suffers from claustrophobia. "He did real well outside," a spokes-

woman said, "but in a small place he just couldn't work."

At Northwest, a Foot Is as Good as a Mile

Northwest Airlines mechanics at Detroit Metropolitan Airport have been told to push passenger planes that are loaded and ready for departure a foot (30 centimeters) or more away from the gate, technically increasing on-time performance. In October, the federal government ranked Northwest's departure performance as among the worst in the United States.

"This will get us on-time departures," a company memo said. A company spokesman declined to say whether the rule was in force at other Northwest terminals.

"This is an effort by Northwest to make its on-time performance look good," said Con Hitchcock, an associate of Ralph Nader, the consumer advocate. "They can say they left the gate on time, but couldn't get off the ground."

—ARTHUR HIGBEE

Managua Seizes U.S. Pilot Tied to Contras

United Press International
MANAGUA — Nicaraguan forces shot down a small plane near the Costa Rican border and captured an American pilot linked to the U.S.-backed rebels, the Defense Ministry said Tuesday.

The ministry said the Cessna-172 was hit Sunday night near San Juan del Norte, about 200 miles (about 320 kilometers) southeast of Managua along the Caribbean coast and next to the border of Costa Rica. The gas tank was pierced, it said, and the plane was forced to land and the pilot was captured.

Radio Sandino identified the pilot as James Jordan Denby of Illinois. Relatives in Illinois confirmed that Mr. Denby is a farmer from Carlinville.

Mr. Denby, in an interview in June with the Springfield State Journal-Register, said he was part of a network of private U.S. citizens who for years helped carry out the Reagan administration's Central American policy.

"None of this was secret," Mr. Denby said. "It was common knowledge."

In the interview, Mr. Denby said his 700-acre (about 285-hectare) farm in Costa Rica near the Nicaraguan border has at times been home to hundreds of Nicaraguan rebels commonly known as contras.

Radio Sandino quoted the Defense Ministry as saying that Mr. Denby would be presented to the media later, an indication that he was not seriously injured. He was alone when the plane was shot down, officials said.

A U.S. Embassy official said the ministry had confirmed it was holding an American. He said the embassy was "in the process of seeking access" to the captured pilot.

In the June interview, Mr. Denby said he airlifted military

supplies to the contras and used his airplane to rush wounded rebels to Costa Rican hospitals. He said he knows contra leaders and U.S. intelligence operatives.

Mr. Denby also said he was a friend of John Hull, a wealthy American rancher in Costa Rica who was mentioned in the Iran-contra hearings as having cooperated closely with Reagan administration officials aiding the rebels.

La Voz de Nicaragua, the government radio station, said Mr. Denby had flown "many missions" into Nicaragua and was flying on the same route as that used to drop supplies to contra units inside Nicaragua. The radio did not cite its source for the information but said

the route originated in El Salvador, crossed Honduras and Nicaragua, and ended in Costa Rica.

Another American, Eugene Hasekus, 45, of Marinette, Wisconsin, was captured and convicted by the Sandinista government last year after a rebel supply plane was shot down by Sandinista troops.

Testimony by Mr. Hasekus and documents captured from the C-123 cargo plane, which was downed Oct. 5 last year, revealed a complicated clandestine supply network for the rebels allegedly set up by the Central Intelligence Agency, with safe houses in El Salvador, several aircraft and several dozen employees, including pilots. He was later pardoned and returned to the United States.

"All I know is what I saw on TV," she said, refusing to give her first name. Asked where her husband was going and what he was

Florida Senator's Decision Not to Run Could Threaten Democrats' Majority

New York Times Service
WASHINGTON — The decision by Senator Lawton Chiles of Florida, a three-term Democrat, to pull out of his race for re-election next year could make it more difficult for his party to retain its narrow hold on control of the U.S. Senate.

His announcement Monday, yet another signal that the Senate is becoming a less popular place to work, throws the Florida Senate race wide open.

In the announcement, which surprised his colleagues in Washington and his supporters in Florida, Mr. Chiles cited a loss of enthusiasm for the Senate.

Mr. Chiles, who is chairman of the Budget Committee, is the sixth incumbent to announce his retirement this year. Half of them have cited the frustrations of working in

the Senate. Senators complain of rules that make it hard to get anything done and work that gives them no private lives.

Mr. Chiles, according to aides, was especially worn down by the recent budget negotiations with the White House, which produced a smaller deficit-reducing package than he had wanted.

Mr. Chiles, 57, already had announced his plans to seek re-election, had raised \$1.3 million and was favored to win. He had begun a walking tour of Florida, the trademark of his three previous campaigns. He said he began to doubt his decision during the Thanksgiving recess and made his decision on Sunday.

"There was just a different feeling out there when I walked this time," he said. "I wasn't looking forward to another six years in the

Senate. What that inner voice told me was, it was time to serve out those 18 years and move over to let someone else take over."

When asked if the negotiations on the budget compromise played a role, Mr. Chiles said: "It was a horrendous year. Maybe I put more on my plate to start with than I should have."

The Democrats control the Senate, 55-45. The Chiles announcement means three Democrats and three Republicans will retire after next year's elections. But Mr. Chiles' seat was considered relatively safe, and now Florida Republicans will have a better shot at it.

One Republican Representative, Connie Mack 3d, already had announced he was running for his seat. But Mr. Chiles' withdrawal may draw others into the race.

NBC Plans to Stay At New York Site

New York Times Service
NEW YORK — New York City officials and NBC announced Tuesday that they had reached agreement on a plan to keep the network in Rockefeller Center, its Manhattan headquarters for more than 50 years.

The plan, subject to approval by a city agency, includes a tax break that will save the network at least \$72 million in real-estate taxes over 35 years and provide it with \$800 million in partly tax-exempt bonds. It would also freeze land taxes, forgive part of the commercial rent tax and free NBC from paying city sales taxes on at least \$1.1 billion in new machinery and equipment it needs to update production operations at 30 Rockefeller Plaza.

Less expensive real estate and lower taxes outside of New York City had been a lure to NBC — and a challenge to Mayor Edward I. Koch. The mayor has seen a number of large companies leave New York this year, and he had made clear that he did not want NBC, a subsidiary of General Electric, to join them.

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Way Envisaged to Keep Herpes Inert

By Boyce Rensberger
Washington Post Service

WASHINGTON — The discovery by medical researchers of an important clue to why herpes infections stay dormant most of the time suggests it may be possible to develop a vaccine to prevent new infections and to make existing ones permanently dormant.

There is no known cure for the herpes virus; once infected, a person retains the virus for life with recurring outbreaks.

The research, done at the National Institute of Allergy and Infectious Diseases in Bethesda, Maryland, was published in last week's New England Journal of Medicine.

The ability of the herpes virus to lie dormant for long periods and then flare up again, a phenomenon common to some other viruses, has long puzzled virologists.

It is known that some of the viruses in herpes

sores on skin migrate into the body through nerves and take up permanent residence in nerve bundles called ganglia. There, the genes of the virus, made of DNA, enter the nucleus and behave like human genes.

When the viral genes are somehow activated, they direct the synthesis of "messenger RNA," a transcription of DNA's message which travels outside the nucleus and directs the manufacture of new herpes viruses. The new viruses travel back to the skin and make new sores.

Most of the time, however, the viral genes are dormant. Dr. Kenneth D. Croen, a virologist at the institute, wondered why and speculated that if he could find out, it might suggest a strategy for keeping the virus permanently switched off.

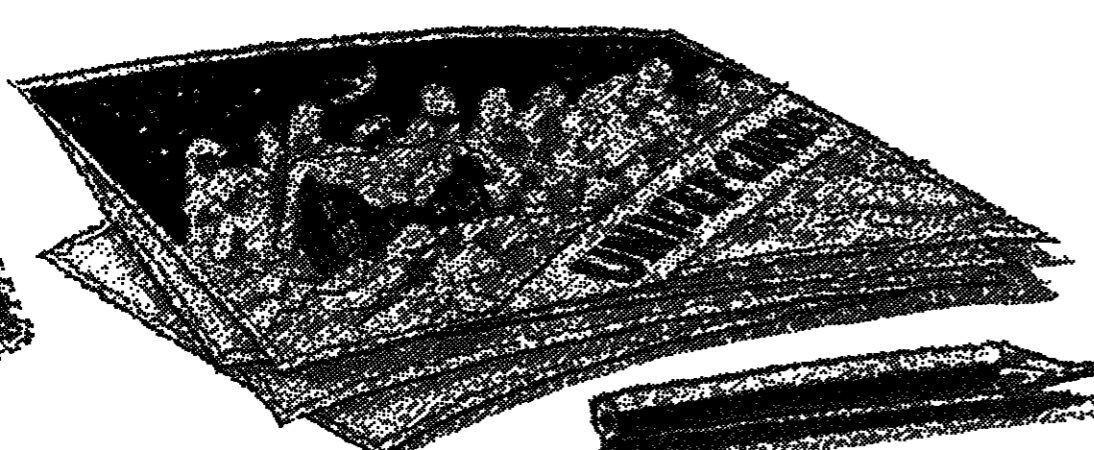
Dr. Croen and his colleagues believe the virus carries its own enforcer of dormancy in the way its DNA is built. This suggests it might be possible to make a vaccine that would infect human cells with a harmless virus to promote dormancy.

AIDS Kills Canadian Acupuncture Patient

Reuters
BEIJING — A Canadian who died of AIDS after recently returning home from Beijing appeared to have caught the disease as a result of acupuncture treatment 20 months before, the Canadian Embassy said Tuesday.

In a circular distributed to Canadian citizens in the Chinese capital, the embassy cited the case to warn of the dangers of acupuncture in places where the sterility of the procedure was not assured. It quoted the Canadian government health authority as saying that the victim, whom it did not name, was not in any of the known high risk groups for Acquired Immune Deficiency Syndrome. "Although we cannot be absolutely sure about the exact source of the infection," it said, "circumstantial evidence tends to indicate acupuncture procedure undertaken about 20 months before."

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Since 1946 Unicef has been dedicated to helping the children of the world, first in war-devastated Europe, and now throughout the world in areas where children suffer most. Every year more children die or become crippled for life from causes that are today preventable. Unicef calls this sad problem the "silent emergency". Fighting the silent emergency is an enormous task, but there is a way you can directly contribute and make a difference for the children who need help most: buy Unicef Greeting Cards this holiday season. Unicef Greeting Cards benefit from very low production costs because the designs are

donated free of charge and the sales force is voluntary — leaving a big net profit for the children. One box of cards purchased by you can make a big difference. For instance, one card can provide enough money to give four children Oral Rehydration Salts to protect them from death by dehydration caused by diarrhoea. Fifty cards fund enough vaccine to protect 300 children from serious diseases. And besides their very tangible benefits to the children, Unicef Greeting Cards are always appreciated by friends for their high quality and distinctive designs. So this Christmas give the card that credits everyone — you, your friends and most importantly the children. Your contribution will provide them not just with a food parcel for the day, but a survival kit for many years.

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كردمان النحل

Effort to End Cambodia War Appears to Face Big Hurdles

By Michael Richardson
International Herald Tribune

SINGAPORE — Flaying down the optimism surrounding recent Cambodian peace talks in France, diplomats and other specialists on Asia said Tuesday that attempts to settle the guerrilla war in Cambodia faced obstacles similar to those that have impeded efforts to end the fighting in Afghanistan.

"The real crunch will come in the next round of talks," said Mohammad Ayub, research fellow at the Institute of Southeast Asian Studies in Singapore. Those talks, he said, which are due to start in January, will have to deal with the timing and conditions for withdrawing Vietnamese forces from Cambodia.

They will also have to deal with future political arrangements in the country, including power sharing between rival Communist and non-Communist factions in a coalition government.

In an interview, Mr. Ayub, a specialist on regional security, said, "As we have seen in Afghanistan, major difficulties have arisen over timing and terms for a pullout of Soviet troops and the kind of national reconciliation government to be set up in Kabul."

In an effort to end the long-running Cambodian conflict, Prince Norodom Sihanouk, a former ruler of the country, held three weeks of informal talks last week at the village of Feung-Tan in the outskirts of Paris, with Hun Sen, prime minister of the Phnom Penh government.

Prince Sihanouk and Mr. Hun Sen agreed to some general principles and a broad framework for a settlement, but their joint communiqué said nothing about political arrangements or a Vietnamese withdrawal.

The government in Phnom Penh was set up after Vietnamese forces entered Cambodia in December 1978 and drove out the Khmer Rouge regime. Hanoi said the Khmer Rouge, acting as an agent of China, had repeatedly attacked Vietnamese territory and was responsible for the deaths of hundreds of thousands of Cambodians.

Prince Sihanouk took a leave of absence in May from his post as president of the anti-Vietnamese rebel coalition after accusing the Khmer Rouge of human rights violations and of killing some of his guerrillas in Cambodia.

Diplomats said Tuesday that reservations about the talks in France by leaders of the Khmer Rouge and its chief patron, China, would have to be overcome before the way would be open for an overall settlement.

Analysts said big-power rivalry and maneuvering complicated prospects for a Cambodian settlement. Last Friday, Deng Xiaoping, China's elder statesman, rejected an offer by Mikhail S. Gorbachev, the Soviet leader, for a summit meeting.

Quoted by the Xinbia press agency, Mr. Deng repeated China's position that before a Chinese-Soviet meeting could be held, Moscow must urge Vietnam to withdraw its forces from Cambodia.

Referring to extensive economic and military aid given by Moscow, Mr. Deng said that "without Soviet assistance, Vietnam could not fight a single day" in Cambodia.

The United States has also been pressing Moscow to end support for the Vietnamese occupation of Cambodia. President Ronald Reagan said he would raise the issue with Mr. Gorbachev in their talks this week as well as the Afghan conflict and other regional conflicts involving the Soviet Union.

Michael Leiter, reader in inter-

national relations at the London School of Economics and Political Science, said Tuesday by telephone that Moscow was not happy about the financial or political costs of the Cambodian conflict.

The Soviet Union, he said, wants a settlement to improve relations with China and non-Communist countries in Southeast Asia.

But diplomats said Moscow had so far promoted settlements in Afghanistan and Cambodia that would give only token participation to opponents in ruling Communist-controlled governments in Kabul and Phnom Penh.

Mr. Ayub said Moscow wanted to "defuse the problems it faces in Afghanistan and Cambodia without giving up what it sees as vital interests of the Soviet Union and its allies."

Analysts said Vietnam had insisted that any Cambodian settlement contain guarantees ensuring the survival of the Phnom Penh government in a dominant position and preventing the Khmer Rouge from recapturing power.

The Phnom Penh government said in October that it was prepared to meet its rivals for talks and that only a handful of the most notorious Khmer Rouge leaders would be excluded.

Diplomats said the Khmer Rouge and the Khmer People's National Liberation Front, another faction in the Cambodian rebel coalition, would have to be persuaded to join the next round of discussions, which are due to be held in France in January, before a real negotiating process could begin.

But Son Samn, leader of the front and prime minister of the rebel coalition, appeared reluctant to join the talks. He said in Paris on Saturday that the rebels should take advantage of Vietnam's economic difficulties by continuing to fight for a complete withdrawal of its troops. Western officials esti-

mate that there are more than 100,000 Vietnamese soldiers in Cambodia.

The Khmer Rouge fields the strongest army in the Cambodian rebel coalition. It has not commented publicly on the outcome of the Sihanouk-Hun Sen talks but said in October that Vietnam, not the regime in Phnom Penh, should negotiate with the rebels.

China said Monday that it respected and supported Prince Sihanouk's efforts to seek a political settlement in Cambodia.

But the statement by the Foreign Ministry in Beijing also said that "the key" to a settlement was the withdrawal of Vietnamese troops from Cambodia at the earliest date.

Sukhumbhand Paribatra, director of the Southeast Asian Security Studies Program at Chulalongkorn University in Bangkok, said China could sabotage any Cambodian settlement it disapproves of by continuing to funnel arms, equipment and other aid to Khmer Rouge guerrillas in Cambodia.

He said Thailand, which shares a border with Cambodia, would also need to endorse a Cambodian agreement.

Prince Sihanouk quoted Mr. Hun Sen as saying Thursday that Vietnam was ready to withdraw as early as 1988 if Cambodia's rival factions patched up their differences.

The Prince said he had rejected an offer of a high-ranking position in the Hun Sen government. But he said he was willing to return as head of a Cambodian state run by a government made up of his three-party coalition and Mr. Hun Sen's group.

"This Cambodia," the prince said, "would be neither Communist nor socialist but run under a parliamentary, multiparty system with Communists and non-Communists side by side in an independent country free of foreign troops."

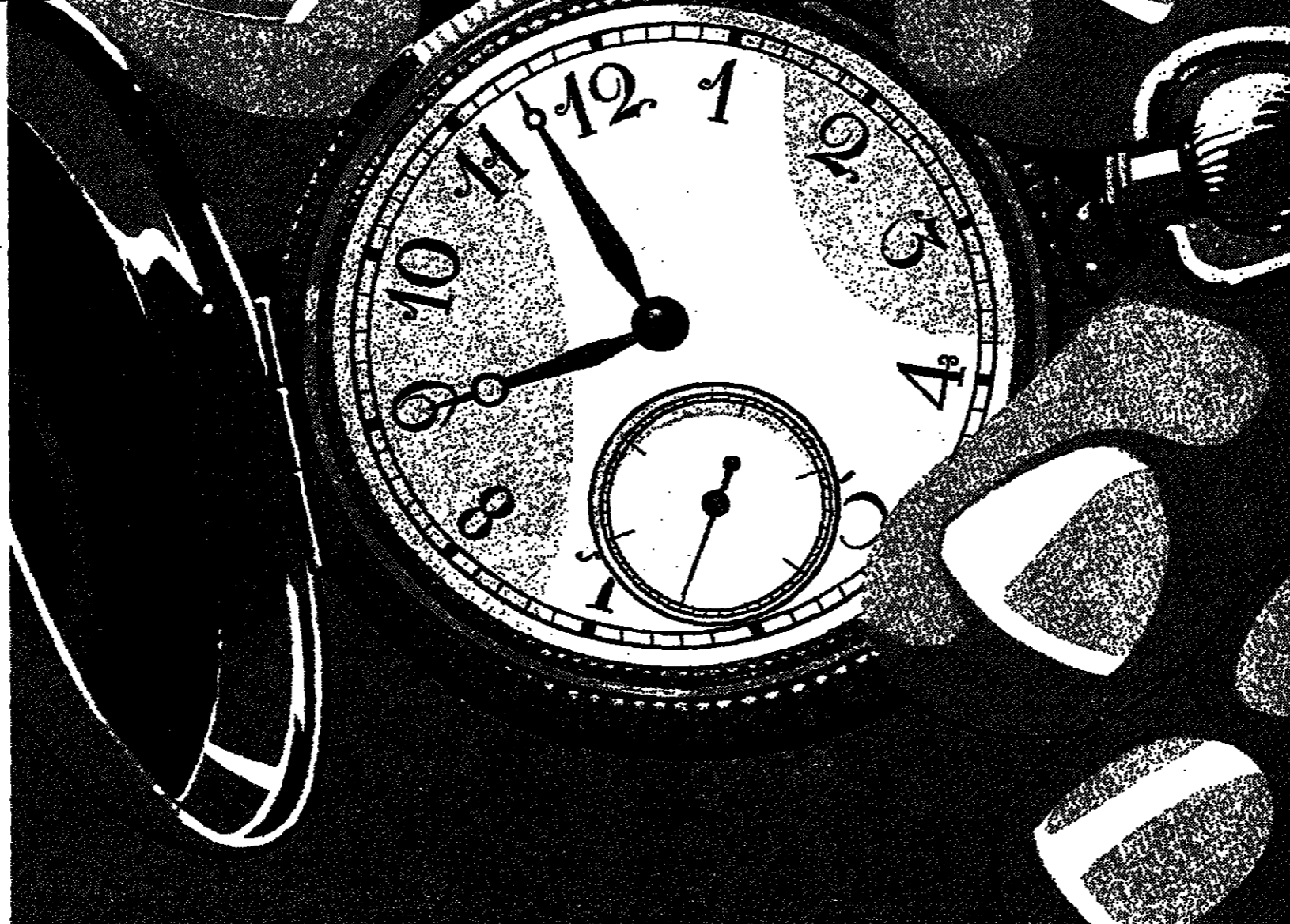


NOT PACIFIC — French policemen fighting with indigenous Melanesian demonstrators Tuesday outside the Magenta stadium in Noumea, New Caledonia, where the French minister of overseas territories, Bernard Pons, was opening the 8th South Pacific Games.

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Bill Widens TV Controls In Malaysia

KUALA LUMPUR, Malaysia — The Malaysian information minister has gained the power to control all national radio and television programs in a law passed by parliament on Monday, according to the national news agency, Bernama.

The news agency quoted the minister, Datuk Mohamad Rahmat, as telling Parliament that the bill was necessary to create "a united, stable and successful society loyal to the king and country."

The bill allows the minister to monitor all programs to ensure they are consistent with government policy, the agency said. He will have the power to revoke the broadcasting license of any station ruled to be in violation of the law.

Malaysian reporters said the law would make the media extremely careful about program content.

The bill appeared to be aimed at Western programs that Mr. Mohamad said "contain elements that can pollute Malaysian cultural values and the Malaysian society if care is not taken."

The Malaysian Parliament tightened press laws last week. In October, the government closed three leading newspapers, accusing them of fomenting racial discord, and banned political rallies during crackdown in which more than 100 were arrested.

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INTERNATIONAL Herald Tribune

The Grievance Is Real

Glasnost or no, Soviet citizens attempting a peaceful human rights protest in Moscow on Sunday got the familiar pro-Gorbachev bullying by KGB goons...

rights behavior protest Moscow's refusal to let thousands of people out. No people are known to be protesting in Mexico or elsewhere...

Save the Midgetman

Political accident puts a crucial weapons vote on the Midgetman missile, on the Senate calendar just as Mikhail Gorbachev is in Washington. The vote makes plain that the nuclear universe in which the two great powers live will be shaped as much by decisions each makes separately about forces that are permitted as by decisions they may make together about forces that are banned...

part, the SS-25. Why ban weapons that strengthen deterrence and stability? Because, the argument goes, the Soviets are ahead in "mobiles," because Soviet mobiles are hard to hit, and because it would be hard to verify just how many had been deployed...

An Inter-American Job

The Organization of American States was too timid Monday in backing free elections in Haiti without endorsing an inter-American force to guarantee the process. Only the most compelling circumstances can justify armed infringements of national sovereignty...

tragedy may be inescapable without inter-American intervention to reconstitute the betrayed election under the original electoral council. That body, established by a popularly ratified constitution and with members nominated by representative civic groups...

Other Comment

Protective and Productive The world's leading environmentalists, meeting in Denver in what they called an eight-day "global summit" on conservation issues, have concluded that "compromise with developers has become their last hope for protecting much of the wild lands and wild animals that remain..."

The Visitor From Moscow To listen to the hubbub, you'd think the future of humanity rests on whether Americans can resist having their pockets picked by the slick visitor from Moscow. The ratings war is a sideshow based on the nutty premise that Soviet-American relations are a zero-sum game in which one side must lose if the other gains...

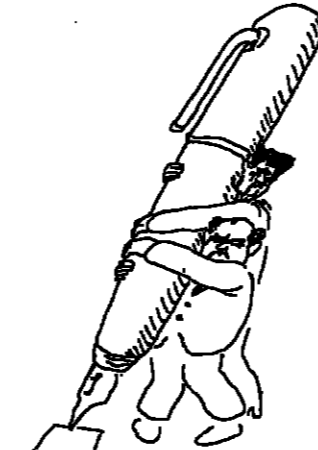
OPINION

A Modest Treaty but a Step Toward Realism

WASHINGTON — The goal that the doctrine of deterrence specified for arms control was a balance of nuclear forces offering the maximum of stability...

The new doctrine offered a clear ultimate goal (abolition of nuclear weapons), a path to follow to the goal (creation of defenses) and clear standards for measuring progress (success in developing the defensive weapons, success in dismantling the offensive ones)...

Europe fails to change the overall destructive power of the two sides' arsenals. Yet if the removal of the arsenals has few strategic costs, then it follows that the measures applied few strategic benefits in the first place...



Far From the Summit, Chinese and Japanese Fret

TOKYO — With all eyes on the U.S.-Soviet get-together, the world seems to have forgotten the other two players in the world power game: China and Japan...

One sign of Beijing's unhappiness is the brusque way the Chinese leader, Deng Xiaoping, has rejected Mr. Gorbachev's offer to meet after the Washington conference. The Soviet leader had gone out of his way to tell Mr. Deng that the U.S.S.R.'s differences with China were not as great as those with the United States...

One sign of the depth of pro-U.S. feeling among conservatives here is the extraordinary lengths to which the government went to make amends when the Toshiba Machine Co. was found to have provided equipment to the Soviet Union that might have improved its submarine technology...

After the Summit, Shultz Might Hear Nordic Static

OSLO — The Soviet Union and the United States are competing these days for the affection of the Nordic countries.

about the creation of an elaborate complex of naval and air bases on the Kola peninsula. The main bases vie with those on the Pacific coast for the honor of supporting the largest Soviet fleet. Most of the Soviet Union's strategic missile submarines, and particularly the most modern ones, are based on the Kola peninsula...

est in their own defense. The electronic facilities and airfields on Iceland and in Norway could play a crucial role in any battle for the North Atlantic. So they are extremely important in discouraging any Soviet temptation toward adventures in this part of the world.

INTERNATIONAL HERALD TRIBUNE JOHN HAY WHITNEY, Chairman 1988-1992 KATHARINE GRAHAM, WILLIAM S. PALEY, ARTHUR OCHS SULZBERGER Co-Chairmen

100, 75 AND 50 YEARS AGO 1887: Austria and Russia VIENNA — The Military Council set for several hours today (Dec. 8). It was decided not to summon the Delegations for the present, no immediate military measures being contemplated owing to the threatening preparations on the part of Russia during the last few days...

1937: Fight or Endure? PARIS — [A reader writes:] Lloyd George, in a speech the other day, pleaded for a more energetic policy of England, even war against the dictatorial powers rather than submit to a dishonest peace. That reason is hardly Christian. European civilization has had to endure many an invasion from Barbarians and recovered. DENVER — Officials of the City Park Zoo are considering an attempt to make lions lie down with lambs after having no difficulty persuading wolves and bears to share quarters.

OPINION

Remember: As a Meadow Differs From a Prison Yard

By A. M. Rosenthal

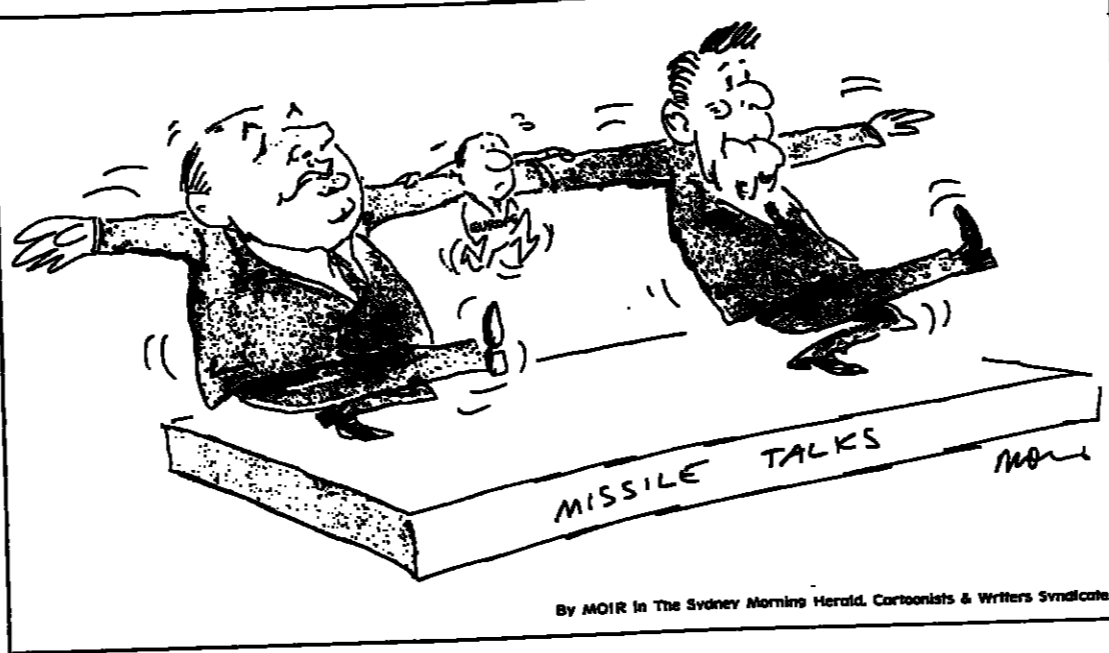
WASHINGTON — Mikhail Gorbachev has arrived in Washington to sign one arms treaty, to prepare for another and to pursue his search for a prize and achievement even greater. It is not yet in his grasp but is drawing closer. The goal is the most ambitious ever sought by a Soviet leader and has profound meaning for the Western alliance. It is nothing less than achieving for the Soviet dictatorship full moral equality with the United States in the eyes and affections of the world.

ON MY MIND

Of changing the essential elements in the system upon which the dictatorship of the Communist Party of the Soviet Union — and therefore his own power — rests. The world is still aware of difference between a great-power democracy and a great-power dictatorship — as a meadow differs from a prison yard. The awareness gave America the right to ask support from those who yearned for freedom themselves. Usually it gets it, provided it speaks truth and does not break faith. Mr. Gorbachev is weakening the awareness; evidence is everywhere. Margaret Thatcher, of all people, speaks of him in terms she could be expected to reserve for St. George. The Germans positively glow with admiration. He is a pop hero throughout Western Europe. In the United States, opinion polls show wariness but, considering the fact that he heads an imperial dictatorship, also a remarkable amount of acceptance. Skepticism about glasnost is not quite fashionable in the world of political fashion. Columnists and politicians would Americans for their fear of communism, as if the occupation of Eastern Europe, the invasion of Afghanistan and the attempts of the Soviet Union to use Cuba as a base were some silly dream from which we should awake.

Decency and Foreign Policy

How far should foreign policy be affected by human rights considerations? The people of the United States are of such diverse origins that an especial sympathy, based on ties of blood, exists with the downtrodden of many other lands. Certainly the plight of Jews abroad will not be forgotten. The task of President Reagan is to accommodate generous moral indignation with a coherent foreign policy. He cannot do this by allowing it to override all other factors. It is one thing to use arms control negotiations to bring violations of human rights to due prominence. It is another to sacrifice satisfactory agreements because the world is not as virtuous as it should be. — The Independent (London).



By MOIR in The Sydney Morning Herald. Cartoonists & Writers Syndicate.

Blue Skies, a Soviet Invasion And Winter's Lok Sabha Din

By S. Nihal Singh

NEW DELHI — This is the most delicious time of the year in the Indian capital, with a perennial blue sky and balmy temperatures. The flowers bloom and hotel swimming pools are full of European and American visitors greedily drinking in the sun. The local resident has become used to months, everything is crammed into it. Foreign presidents and prime ministers suddenly hear the Indian love call and find business of state to transact. We have just had a remarkable retrospective of Henry Moore's sculptures and drawings. But this winter will be awash in Soviet fare. After the fashion set by the Festival of India in Britain, the Indian Festival went to Moscow this summer. The Soviets are returning the compliment by sending their best fare. Last month, their prime minister, Nikolai Ryzhkov, paid a visit. There is some tart comment that the Soviets have not fully reciprocated an earlier Indian gesture; since Prime Minister Rajiv Gandhi went to Moscow to launch the Indian festival, the Soviet leader, Mikhail Gorbachev, should have come here, it is said. Politics apart, nobody is sneezing at the Russian offerings: the Bolshoi Ballet, a fabulous collection from the Hermitage in Leningrad (reportedly including some works that had never left Soviet soil), the Moiseyev folk dance ensemble, jazz groups including the famous Arsenal, the Vilnius puppet theater, and the inevitable circus. For a bit of political mileage, there is an exhibit on the Russian Revolution as seen through the eyes of artists.

MEANWHILE

the police check posts dotting the city to cope with the increasing (or decreasing) threat of an overflow of terrorism from the northeastern state of Punjab. He has even got used to the gun-toting guards of government ministers and other VIPs. With their penchant for the melodramatic, Indians tend to overdo the security routine, and it often becomes comical. Since the idyllic winter lasts barely four

LETTERS TO THE EDITOR

For Peace in Space, Stop Early Research on the Ground

There have always been two main arguments in favor of the Strategic Defense Initiative. One is that it could defend against enemy missiles. The other is that it would provide a peg on which to hang the research of advanced space-arms technologies, in order to ensure that the Soviet Union could not forge ahead with some unforeseen breakthrough. Extensive calculations have now been done in this field. In April, the American Physical Society completed a study called "Science and Technology of Directed Energy Weapons." It is quite evident from all available material that, though some space weapons will become possible, defenses will never be able to replace deterrence as a strategy. Nuclear deterrence can only be replaced by controlled disengagement — that is, the gradual elimination of nuclear weapons and other weapons until the prospect of murdering hundreds of millions of people becomes as unthinkable as spitting on the carpet at a diplomatic reception. Until that happy day arrives, the ostensible search for space defenses has only one genuine purpose: to keep abreast of what the other side may be doing. At present, each side sees its own part in the space race as unavoidable although, clearly, this race can only lessen stability and safety for all. Currently, the space arms race is not chiefly in weapons but in technologies that are precursors of space weapons. A useful parallel is found in the negotiations to ban chemical weapons. In those negotiations, it has been recognized that certain precursors of chemical weapons would also have to be limited. It is now equally necessary to take some precursors of space weapons into account. Verifiable limits on such technologies would

not put either side at a disadvantage and would counter the possibility of circumventing the anti-ballistic missile treaty in any significant manner. Anything that has a great kill potential within space or from space should be considered for limitation — not only the brightness of lasers but large power sources of any kind in space, large reflectors, various targeting and tracking experiments and so forth. Mutually imposed restrictions to this effect would greatly enhance safety, simplify the arms limitation process generally and save stupendous sums of money. Verification would be easier than one might suspect, at some stage, most experiments in the precursor technologies would require massive structures and tremendous sources of power. It would be a paradox and also a most fortunate outcome of the Reagan years if, due to the exaggerated early rhetoric about the usefulness of space weapons, their creation could be outlawed for all times. That would be an achievement of unsurpassed significance. JULIE DAHLITZ, Geneva.

The writer is senior researcher at the United Nations Institute for Disarmament Research in Geneva. Her remarks are made in a personal capacity.

A 'Googol of Pluses'

Regarding the column "Foreign Students in America Can Benefit Both Sides" by Jean-Jacques Servan-Schreiber and Herbert Simon (Nov. 19): I write to applaud your article on foreign students in the United States. As a veteran of more than 30 years of TESL (teaching English as a second language), I can attest to the googol of pluses attendant upon blending foreign students with American indigenes. The article, however, requires one small adjustment: The organization that has so admirably addressed the needs of foreign students in the United States is the National Association for Foreign Student Affairs, not just for Foreign Students. JASON B. ALTER, Himeji, Japan.

Latvia's Long Struggle

The report entitled "Militia Blocked Protest Against Soviet Rule in Latvia" (Nov. 19) by Gary Lee was a very good one, except for one mistake. It says that Latvia was declared a free autonomous region on Nov. 18, 1918. Latvia was proclaimed a free democratic republic after a

How Taiwan Views Tibet

I felt a meeting of minds in reading the letter to the editor "Tibetan Riots: Two Western Witnesses Tell Their Story" (Oct. 28), with its question, "What

message does this send to the residents of Hong Kong and Taiwan?" I thought I might take the liberty to answer that.

The Chinese Communists pledged long ago to maintain Tibet's political system and to respect the people's beliefs. Instead, they shut Tibet down. Beijing's "one country, two systems" scheme is obviously just a tactical maneuver in its overall strategy for "total communication of Chinese territory." This is intended to create a mirage of peaceful coexistence among fiercely opposed systems. Tibetans are one of the five ethnic groups (along with the Hans, Manchus, Mongolians and Huis) that form the Chinese nation. But in the hearts of freedom-loving Chinese people, there is only one China — the Republic of China — and only one system.

The Republic of China respects the Tibetans' desire to have an autonomous system, and it supports their struggle against oppressive Communist rule. It seems clear that if a bit of reasonableness and humaneness had been applied in the administration of Tibet, most of the problems it is experiencing would not exist. The Dalai Lama would still be at home, and none of Tibet's religious shrines would have been destroyed. But the Republic of China stands by its insistence that Tibet is an integral part of Chinese territory. C.T. WANG, Taipei.

Letters intended for publication should be addressed "Letters to the Editor" and contain the writer's signature, name and full address. Letters should be brief and are subject to editing. We cannot be responsible for the return of unsolicited manuscripts.

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ARTS / LEISURE

Maguy Marin Takes On 'Sins' By Brecht/Weill

By David Stevens
International Herald Tribune
LYON — "The Seven Deadly Sins," the final collaboration by Kurt Weill and Bertolt Brecht...

"The Seven Deadly Sins" is a ballet with songs, or a ballet with singing. The story tells of Anna — represented by a singer and a dancer...



Scenes from "The Seven Deadly Sins," with Maguy Marin (below, at right) and Cathy Polo.

This first part is entitled "... des petits bourgeois" — a reference to Brecht's didactic ex post facto "complete" title, "Die Sieben Todsünden der Kleinbürger" — and linked to the Brecht-Weill work proper by doing without an intermission...

Montserrat Casanova's set, a huge scaffolding wrapped around three sides of the Lyon Opera's stage, allowed the action to be carried out on several levels figuratively as well as literally.



Photograph by Gérard Assolant

discovery of this situation meant that Marin had a month or so of heavy reorganizing. But the suspicion here is that not only did she rise to the challenge, but she did it with a grace and a grace...

A Rare 'Twelfth Night,' Almost Chekhovian

By Sheridan Morley
International Herald Tribune
LONDON — "If music be the food of love, play on," is arguably the most famous and oft-quoted opening line in all Shakespearean comedy...

Working without Martin Churnin or any of his previous and valued librettists or lyricists, Strouse has written the book, music and lyrics for this curiously amateur adaptation of a Bernard Shaw farce...

'Forgotten' Film Of Beatles Found

BALTIMORE — Morton Tadder credits his assistants with stumbling upon forgotten film in his studio from a 1964 Beatles appearance in Baltimore.

Simon Stokes directs an admirable cast in, sadly, his farewell to the theater that he has made over the past decade into one of London's best.

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Dining Out
JOHN JAMESON
KITTY O'SHEA'S PUB
BALADIN, Left Bank
DIAPASON
RAFFAÏN & HONORINE
L'AKVAVIT
ROGER LA GRENOUILLE
THOUMBOULX
PARIS 8th
PARIS 16th
LE GRAND CHINOIS
LE PRESSOIR
PRUNIER TRAKTOR
LE TOTEM
ASHIANA
LA CHEVALCHÉE
LE PAVILLON HENRI IV
F.F.2000 for two
GENEVA
LA COURCOLE
LONDON
LE SHAKER
BAR FETIVAL AND VIETNAMESE CUISINE
LUDMILA PAVILLON RUSSE
PARIS 8th
AU MANDARIN
PARIS 9th
MAX GOLDENBERG

DOONESBURY
SO WHAT'S YOUR SON'S NAME?
YOU CALL HIM JEFFREY, I HOPE OUR CHILD IS NAMED CHRISTOPHER, BUT HE MIGHT BE DREAM OF CALLING HIM CHRIS!
JEFF'S A LITTLE BOY. NICKNAMES ARE EASIER. AND SOME NIGHT AID. A TAD LESS FREQUENTLY.
NON, JOAN... IT'S JOAN, ISN'T IT?
JOANIE.

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Japan: A Change of Face

IN THE NEWS

Nov. 4: Reagan Curtails Trade Sanctions
President Ronald Reagan, citing progress in a trade dispute over computer chips, lifts \$84 million in sanctions against Japan, leaving sanctions totaling \$165 million.

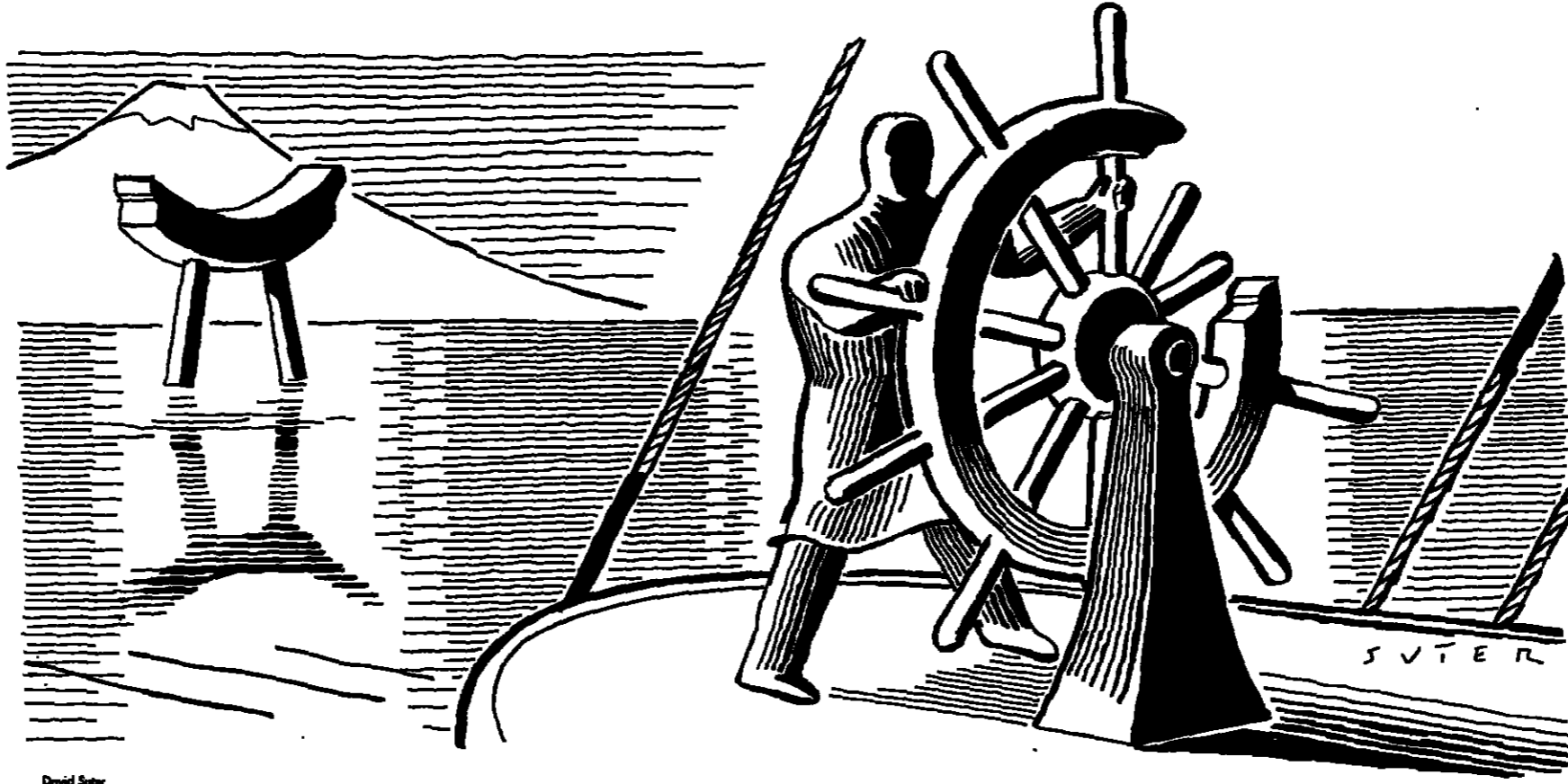
Nov. 6: Takeshita Becomes Prime Minister
After taking over from Yasuhiro Nakasone as president of the ruling Liberal Democratic Party, Noboru Takeshita wins a predictable election to become Japan's 17th postwar prime minister.

Nov. 7: Takeshita Urges U.S. to Support Dollar
The prime minister and his newly appointed deputy prime minister, Kiichi Miyazawa, call on the United States to abide by an agreement on exchange rates and to reduce the U.S. budget deficit.

Nov. 19: Trade Talks Bring U.S. Warning
Less than a month after being appointed U.S. commerce secretary, C. William Verity holds four days of trade talks in Tokyo, warning that Japan's refusal to allow American companies access to public works construction projects was "unacceptable."

Nov. 24: Japan Rebuffs Thatcher's Plea
Following the U.S. budget pact announced Nov. 20, Prime Minister Margaret Thatcher of Britain urges Japan and West Germany to stimulate their economies. But Japanese finance officials say Japan will not make any changes in its economic and monetary policies.

Nov. 27: Prime Minister Reaffirms Goals
In his first major policy speech to the Japanese parliament, the prime minister reaffirms the nation's commitment to overhaul its economy by relying more on domestic demand and less on exports.



Takeshita Tackles an Unfinished Agenda

By Paul Maidment

TOKYO — Noboru Takeshita, Japan's new prime minister, has inherited a resurgent economy, hard-to-fulfill expectations abroad that Japan needs to play a bigger international role and even harder-to-achieve challenges at home that must be tackled in order to keep up the economic growth needed to meet those expectations.

The legacy of his predecessor, Yasuhiro Nakasone, is an unfinished political agenda that includes completion of tax reform, arresting the skyrocketing rise of Tokyo land prices and liberalization of agriculture, the construction industry and the distribution system. Mr. Takeshita could seize the initiative on any one of these and write his name in the history books.

Seizing initiatives is not the painstaking Mr. Takeshita's political style, however. It is more likely that he will hold Japan steady on the course Mr. Nakasone steered, carry out the key outstanding part of tax reform, the introduction of a broad indirect tax such as a sales tax, and leave the other

difficulties for his successor.

Many in Tokyo political circles expect Mr. Takeshita to remain in office for only the first of the maximum two-year terms in office that the rules of the governing Liberal Democratic Party allow. Signs of a succession struggle are already beginning to appear, although Mr. Takeshita, a consummate domestic politician, could yet confound his doubters. Mr. Nakasone, once also considered a potential one-term leader, became Japan's third-longest-serving postwar prime minister.

Mr. Takeshita has taken over an economy that would let him steer a bolder course of his own should he so choose. The government's growth target for the current fiscal year (to March 1988) is 3.5 percent, against fiscal 1986's 2.5 percent growth. Despite the strengthening of the yen and the prospect of slower growth in Japan's main export market — the United States — brought on by the fall in world share prices, private economists still believe that the Japanese economy will grow by not much short of the official target. Growth for fiscal 1988 is widely forecast to be around 3 percent.

It is domestic demand that is keeping the economy buoyant. The domestic component of gross national product is

forecast to increase by more than 4 percent this year. In the fiscal years 1980-1985, it averaged only 2.6 percent annual growth, while the economy as a whole grew by an average 3.9 percent a year.

Japan's export manufacturing industries are still suffering from the effects of the sharp appreciation of the yen, which has risen from 230 yen to the dollar at the time of the Plaza accord in September 1985 to around 135 now. Corporate profits in the manufacturing sector fell 20 percent last year and are only now starting to recover.

Corporate bankruptcies have been falling on a year-on-year basis since January 1985, but there were still more than 1,000 in October. Japanese exporters continue to shift their low-technology assembly and components production offshore, slim their work forces and generally tighten their belts another notch each time the dollar falls another 10 yen.

In contrast, domestic-oriented industries are thriving, led by private-sector homebuilding and personal consumption, which is expected to increase by 3.6 percent this year, its strongest growth since 1982. Retail sales volume in the year

Continued on page II

IN THIS REPORT

Nakasone's Legacy II
The former prime minister's assertive style was a break from traditional Japanese politics, but in the end he had to bow to the consensus-based system.

The Rising Yen IV
The real question now is whether Japanese importers and the entire economy can withstand further appreciation of the yen without sustaining serious damage.

U.S. Relations V
The reluctance to boost domestic demand has created greater trade frictions with the United States, Japan's largest trading partner.

Bullish on Japan VI
From deep pessimism, Japan has shifted to bullish optimism about the economic future.

Real Estate VII
Residential and commercial land prices in the Tokyo area have soared 93 percent during the past year, creating a crisis full of social and economic implications.

Stocks VIII
The Oct. 19 stock market crash bared the vulnerability of the Tokyo exchange.

New Technology IX
A Nobel Prize winner's warnings have prompted soul-searching among those planning strategies for high-tech development.

Art Boom X
Cultural consumption has reached a new high. Excess cash has opened up an enormous market for Western art.

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Europe has become a global community. To help it grow we have to get together. Because, together we can bring new qualities to our lives here in Europe. We can enjoy new ideas, new challenges and new life styles. So let's get to work on tomorrow, today.

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Nakasone: A Leader Who Led Too Fast For the Consensus

By John Burgess

WASHINGTON — This summer there were still those in Tokyo who thought that Yasuhiro Nakasone just might find his way to another extension as prime minister of Japan. So many times before he had proven wrong rivals' pronouncements that he had lost his grip on the job, staying put for five years in the drafty official residence that predecessors had typically occupied for only two.

But Mr. Nakasone did not manage it this time. When his term expired on Nov. 6, he stepped aside resignedly in favor of the most politically connected of the three "new leaders" who had been stalking the prime ministership, Noboru Takeshita, and the "Nakasone era" finally came to an end.

From its start, Mr. Nakasone had been labeled a new kind of Japanese leader, one with an assertive, perhaps even presidential style. He was hands-on, an engaging speaker. His English was fluent — or at least sufficiently so to make small talk with fellow world leaders. He would finally bring to the office, his fans said, a confidence befitting the country's emerging status as an economic superpower.

But try as he did, Mr. Nakasone was in the end a creature of Japan's consensus-based political order and ultimately beholden to it. The circumstances of his departure showed it again. He left not because of dissatisfaction with his policies — most everyone in the ruling Liberal Democratic Party agrees they must be continued — but because of the traditional share-the-wealth dictum of the system. He had been in long enough; it was someone else's turn.

Many Japanese were surprised that Mr. Nakasone ever became prime minister. He was a maverick, a breed that normally does not fare well in Japanese politics. He was uncommonly popular with ordinary Japanese but not with the ruling party elite that in most cases decides who will get the job.

There were ample reasons for his colleagues to dislike him. He never showed proper respect for the country's conventions of self-effacement, talking loudly of his ambitions. ("One cannot become prime minister simply by wishing," he once said.) His intellect and interests were larger than theirs — he practiced Zen meditation and weekend oil painting. So was his vanity. Even as prime minister, Mr. Nakasone is said to have always kept comb and mirror in his coat pocket to touch up his balding pate at various points in the day.

The son of a lumber firm owner, Mr. Nakasone was a young naval officer during World War II but never saw combat. Like many of his generation, he brooded after the war over the U.S. occupation and believed it stripped Japan of national dignity. Unlike many, he tried to do something about it, entering politics and for years wearing a black necktie of symbolic mourning.

By the mid-1960s, Mr. Nakasone was in command of a faction of the LDP, albeit a

small one. He became prime minister in 1982, when disgraced former Prime Minister Kakuei Tanaka threw the weight of his faction, the party's largest, behind Mr. Nakasone. The "Tanakasone" tie-in was to give critics endless ammunition against him; it also helped assure that they were helpless to derail him.

Mr. Nakasone will be remembered as one of the most nationalist prime ministers of modern Japan. But, in fact, what he did was rarely more than build upon trends (with trademark flair for the dramatic, public gesture) that his predecessors had set in motion years earlier.

They had long been paying visits for prayers at a national shrine to the war dead in Tokyo, but only in a formally declared "private capacity." Mr. Nakasone upped the ante by declaring himself present as prime minister. (He later backed off, however, in the face of protests from China and South Korea, both of which had been victims of Japanese wartime aggression. Normalizing relations with them was also a major priority.)

Increases in military spending were also a well-established norm. Mr. Nakasone pressed the case further by publicly dumping a decade-old policy of limiting the military budget to 1 percent of the gross national product. He also made a point of attending military parades and reviews, attempting to restore soldiers as respected members of the Japanese family.

Probably more of Mr. Nakasone's energy went into the economic field, however. With trade surpluses mounting, he believed that Japan was risking disaster unless it further opened its notoriously closed markets. He masterminded a complex series of tariff-cutting packages, removal of formal bureaucratic barriers to imports, and a commitment to restructure the economy away from export dependence.

Mr. Nakasone moved to reduce the pervasive hands-on regulation that had characterized economic development after the war. The country's sole telephone company (also the world's largest) was demunicipalized, denationalized and sold in part to the public. The huge national railway system was split up into six regional companies.

He also cooperated with foreign governments — no doubt without realizing how far things would go — in the upward revaluation of the yen. It was trading at 260 to the dollar in early 1985; in November this year it came close to hitting 130, a full 100 percent revaluation. That has brought a wrenching shakeout of the Japanese export industry.

Mr. Nakasone was energetic like few of his predecessors. Bureaucrats from the high-rise ministries of Tokyo's Kasumiga-ki district were summoned to his office to receive marching orders on how they were to implement a certain market-opening program. He paid attention to detail, sometimes impressing visitors with his grasp of complex trade subjects.

Several times he took the highly unusual step of appealing directly to the public for help, foul play in a system where bureau-



Noboru Takeshita

Yasuhiro Nakasone

As the Takeshita era begins, Japan reflects on the Nakasone years and the contrast in styles.

crats and politicians think they know best. In 1985, he went on national television to explain market-opening measures and made a now-famous appeal that each Japanese buy just \$100 worth of foreign goods, which some simple arithmetic showed would wipe out the trade surplus.

Ordinary Japanese generally liked Mr. Nakasone. Foreigners did, too. Here was a man who seemed to think as they did. Foreign leaders felt they could talk straight with him. Out of this was born what the Japanese called the "Ron-Yasu relationship," a much ballyhooed personal rapport between Mr. Nakasone and President Ronald Reagan, complete with first-name familiarity.

But how much did Mr. Nakasone really accomplish? The telephone company privatization was a real and considerable feat. So was scrapping the 1 percent limit on defense spending, though for now its importance is mostly psychological. Tariffs have been cut and regulations changed to the point that many U.S. trade officials grudgingly concede that in terms of formal barriers, at least, Japan is now as open a market as that of any industrialized country.

The fact remains, however, that the prime minister who made market liberalization a personal crusade presided over the largest trade surpluses in history. The man who was supposed to be expert at keeping the outside world happy has seen relations with the U.S. and Europe slide to their lowest point in years.

Early this year, Mr. Nakasone suffered perhaps the most stinging defeat of his tenure when wings of his party revolted against a tax reform package in which he

had invested enormous personal prestige. He withdrew it in disgrace, breaking the usual pattern that every bill that reaches the parliamentary floor is passed.

The crux of Mr. Nakasone's problem, his critics said, was that he would often rush off with his own ideas without getting the people who mattered on board, be they the powerful bureaucrats or members of his own party. He was trying to lead too forcefully a society still based on consensus and gradual-paced change.

For his new prime minister, Japan has reverted to a man very much of the old school. Mr. Takeshita is short, has an unmemorable face and is given to making nervous grins in international meetings. As every good Japanese politician should, he says in public that he has a woeful lack of abilities but will try his hardest.

His people promise that, controlling the party's largest faction and having mastered the art of political compromise, their man will be able to deliver where Mr. Nakasone has not.

Today, Mr. Nakasone is officially just a faction leader and member of the lower house of the Diet, or parliament, from Gumma prefecture north of Tokyo. It was he who anointed Mr. Takeshita when the three new leaders were unable to reach agreement on who should succeed him. No one believes he sees himself as done in politics.

JOHN BURGESS was The Washington Post's Tokyo bureau chief from August 1984 to August 1987. Now based in Washington, he reports on computer technology issues related to international trade.

A One-Party Democracy Based on 'Money Politics'

By Lisa Martineau

TOKYO — It was just after midnight on Oct. 19, "Black Monday," when Noboru Takeshita became the president of Japan's governing Liberal Democratic Party, and by extension the next prime minister.

The world's stock markets had collapsed that day, but, faithfully, the television news, as it had every night, led with footage of the three "new leaders" — Mr. Takeshita, Shintaro Abe and Kiichi Miyazawa — agreeing that they could not decide which one of them should be prime minister.

Finally, Yasuhiro Nakasone, the outgoing prime minister, was asked to pick the winner. That Mr. Nakasone voted in Mr. Takeshita was inevitable. Mr. Takeshita runs most of former Prime Minister Kakuei Tanaka's old faction, whose backing was largely responsible for Mr. Nakasone's term as prime minister.

That a vote was not put to the general LDP membership, or at least to all of the LDP representatives in the Diet as, in the spirit of party rules, it should have been, was irrelevant. The Takeshita faction is the biggest in the party. He would have won, anyway.

Like many Western democracies, Japan has a bicameral parliamentary system. But there the similarities end.

Although there are four opposition parties with seats in the Diet — the Japan Socialist Party (JSP), the Democratic Socialist Party (DSP), the Komiso, and the Japan Communist Party (JCP) — Japanese politics is the LDP.

The LDP has governed Japan since Mr. Takeshita first entered politics more than 30 years ago. Before this, except for a brief 18-month period, postwar Japan was governed by either the Liberal Party or the Democratic Party, out of whose merger the LDP was born.

The LDP is a broad spectrum of conservatives, at the moment made up of six nonideological factions named after the faction boss: Takeshita faction, which has 114 members; Miyazawa faction, 89; Nakasone faction, 87; and Abe faction, 85.

The two small factions are Toshio Komoto's, 32, and Susumu Nikaide's group of 15. There are only a handful of nonaligned independents.

Barring a violent change in the country's fortunes — a radical reorganization of the electoral system, a merger of the opposition parties or a revolution — the LDP looks likely to govern in perpetuity.

Japan's electoral system is made up of multi-seat constituencies that elect between three and five candidates to the legislature, the lower house. Up to eight LDP members, representing the various factions, plus the independents and three or four candidates from the opposition parties might run for these seats.

The man who wins (only seven of the 512 lower house members are women, two from the Socialist Party and five from the Communist Party) will do so because of his local power base, not because of his policies.

LDP candidates are chosen, backed and financed by the faction they belong to. About one in three LDP Diet members are related to each other. And 25 percent of all LDP seats are handed down through families.

But powerful candidates can be, and often are, supported by members of other factions, and/or other parties.

The opposition parties, worried about splitting their votes and finding it difficult to draft candidates who might actually win (truly ambitious politicians join the LDP), are stymied.

During the 1986 general election, only the LDP put up enough candidates to enable it to win a

majority of the 512 seats. The JSP, the second largest party, only ran 138 candidates to the LDP's 351.

The LDP, as a party, takes in less money annually than the fourth biggest, the JCP, which has a big publishing empire. So it is up to the individual LDP faction bosses to raise money and find candidates. Mr. Takeshita's ability to expand his war chest is legendary. Last May, one fund-raising party alone brought in 2 billion yen (more than \$15 million) to the coffers.

Running a faction is an expensive business. Other than paying out campaign funds for his candidates, a faction boss gives his members several million yen for midyear and year-end gifts.

And entertaining one's own and other faction members, bureaucrats, members of the opposition parties, businessmen and others at restaurants that charge 50,000 yen per person adds up to billions of yen annually.

The countrywide constituency offices, its working and the various support organizations are paid for out of faction funds, as are trips to the big city for the voters.

Barring a violent change, the LDP looks likely to govern in perpetuity.

The faction boss raises this money from companies and special interest groups, such as farming or real estate lobbies.

The Japanese call this by its proper name: "money politics." It is acceptable primarily because the majority of people perceive their interest to be bound up with it.

The voters know that the LDP is so thoroughly entrenched that only it can deliver the goods, including public works projects and local government subsidies, and attract new offices, factories and investment from private companies.

And a Diet member, should he wish to remain so, will make sure that his constituency benefits from his term in office as he benefitted from their support.

Japan has one of the lowest income differentials in the world. Ninety percent of the Japanese consider themselves middle class. Unlike in Britain and the United States, the gap between rich and poor has not widened in recent years, nor has the percentage of the poor increased. Instead, the majority of people have grown richer.

The current steep rise in land and property prices could radically alter this status, however. And the growing awareness by the Japanese that their quality of life, when compared to Europe and the United States, is woefully inadequate could also provoke wide-scale dissatisfaction with the status quo.

But at the moment, broad dissatisfaction with the Japanese political process is confined to foreign governments and business people, who because they are *gaijin*, literally an "outside person," are shut out of the benefits of membership in what is one of the most powerful and, in that favorite Japanese phrase, "mutually beneficial" clubs in the world.

LISA MARTINEAU is The Guardian's Tokyo correspondent.

Takeshita Tackles an Unfinished Agenda

Continued from page 1

to May was running more than 9 percent above its level of a year earlier. New housing starts for the current year are expected to increase by 30 percent from last year to match 1972's record 1.8 million. There are now signs of the surge in private homebuilding tailing off, but public works projects are starting to take up the slack.

This year, the government reversed its six-year-old policy of budgetary austerity. Through a 6 trillion yen (\$45 billion) package of demand-boosting economic measures announced in outline in May, it increased its public works spending from 1986's 6.9 trillion yen to 7.2 trillion yen — the same level as in fiscal 1982.

Mr. Takeshita's government intends to hold public works spending to at least that level in fiscal

1988. Some private economists estimate that further sales of shares in Nippon Telegraph and Telephone and other state-owned companies, carried over higher-than-expected tax revenues from this year and 500 million yen in allocated but unspent money from the 6 trillion yen package gives him scope for a further injection of at least 4 trillion yen in fiscal 1988.

The final size of any supplementary budget will be determined by

balancing the political imperative of stimulating the economy to sustain the world economy against fears of a resurgence of domestic inflation. Although consumer prices are rising at less than 1 percent a year, bottleneck inflationary pressures such as building material price rises and skilled labor shortages are causing concern that the economy risks overheating.

In the minds of many foreign politicians, the vigor of the domestic side of the economy has yet to overshadow Japan's persistent surpluses on the external side. These are beginning to shrink, and the change in direction in the economy is irreversible, but it is a slow process and foreign perceptions of Japan's economic performance change as slowly.

The overall trade balance has started to narrow from its peak in the first quarter of this year, but it is still expected to record a record \$96 billion for the full year. Next year, it is likely to shrink to \$81 billion. But the politically sensitive bilateral trade surplus with the United States remains seemingly intractable. It was \$58.6 billion in 1986 and forecast to fall only marginally this year.

Japan's trade problem is one of too few imports rather than too many exports. Even at its peak, the ratio of Japan's exports to GNP was barely 13 percent. The ratio for West Germany is 30 percent. But while imports account for the equivalent of 26 percent of West Germany's GNP, the figure for Japan is only 6 percent.

Removing further barriers to increasing the 5 percent figure is the main domestic economic task for Mr. Takeshita. The basic restructuring of the economy from one being driven by Japan's export industries to one being led by domestic demand has been under way for several years. He now has to make further structural changes to free up the economy.

The main ones among these are the astronomical prices of land in Tokyo, a distorted tax system, highly protected agriculture, the Byzantine system of wholesale and retail distribution and the closed construction industry.

High land prices keep too much Japanese wealth locked up in unproductive assets. Even were it to be freed overnight for consumption, the distribution system, agricultural protection and the virtually closed system of bidding on construction contracts would prevent much of that newly liberated

wealth from being turned into imports.

Mr. Takeshita considers tax reform his priority. He is beholden to Mr. Nakasone to complete the tax reform his predecessor started. The government needs new sources of revenue to pay for extra public works, and in the longer term to pay for Japan's aging population.

But it is agriculture and the construction market that are now at the top of the United States' agenda for opening Japan's domestic markets. The new U.S. commerce secretary, C. William Verity, made construction the focal point of a four-day visit to Tokyo last month. Washington sees Japanese public works projects as a potential \$200 billion market over the next 10 years.

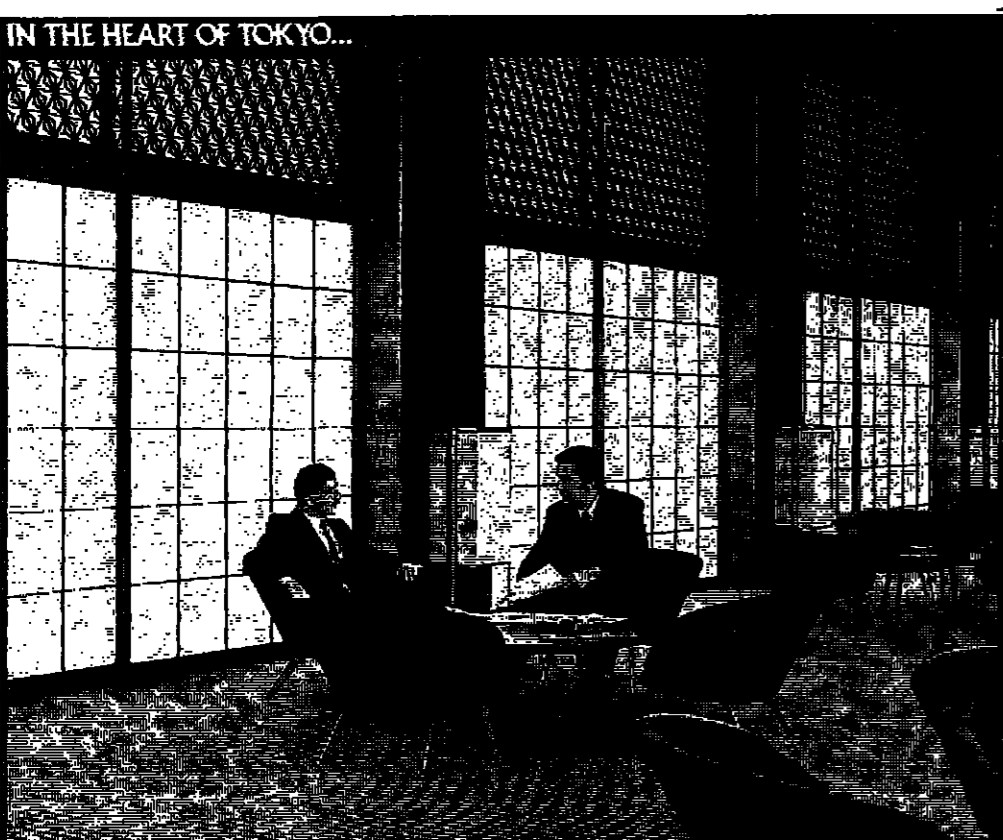
The need to tackle such problems is pressing. The rest of the world is looking to Japan, and to a lesser extent West Germany, to take up the economic slack left by a splintering U.S. economy.

The question now being asked in Tokyo and beyond is whether Mr. Takeshita's political style — patient, traditional Japanese consensus-building, backed by the power of patronage and cash — is appropriate for the circumstances Japan finds itself in.

The doubts fall into two categories. One is whether Mr. Takeshita has the time his patient style demands. He is fortunate that the rest of the world is now looking at the United States and West Germany as the economic bad boys rather than Japan. But that will give him only a temporary respite. His budget for fiscal 1988, which should be drawn up by the end of the year, will be scrutinized as a statement of where Japan stands in its willingness to do its bit for the world economy.

The other doubt concerns Mr. Takeshita's political will. His supporters say that he is the only Japanese politician with sufficient power to move the vested interests that have blocked change in the five domestic areas where it is most needed. Yet these are some of the Liberal Democratic Party's main financial supporters — farmers, small businessmen and the retail construction and property lobbies. Mr. Takeshita's critics fear that he will be more beholden to those interests than able to move them.

PAUL MAIDMENT is The Economist's Tokyo correspondent.



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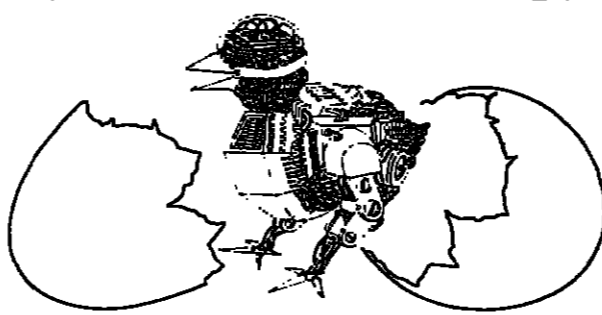
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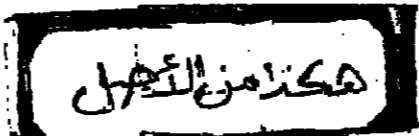
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The modern food industry is the bridge between technological achievement and basic human needs. Of course, this role is increasing in importance as the world's population grows. However, the food industry is also striving to improve human satisfaction through taste and quality enhancement. Thus, the modern 'food chain' is in the reality a network spanning food production and enhancement, marketing and distribution, and consumption and enjoyment in every continent.

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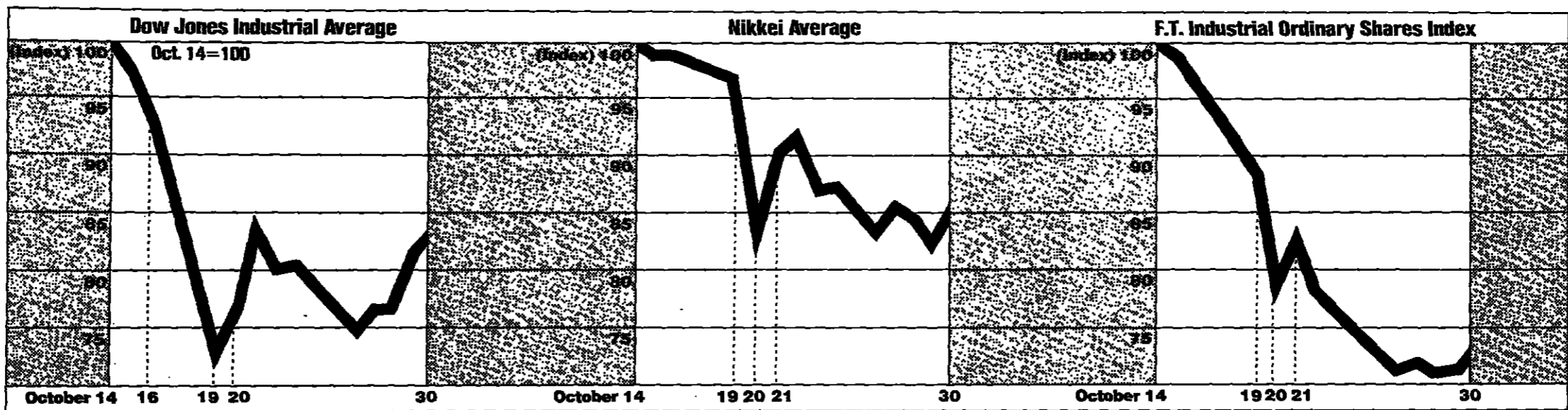
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TOKYO, OCTOBER 1987 WHAT HAPPENED AND WHY?

Investor Confidence and a Strong Economy
Stabilize the Tokyo Market

NEW YORK TOKYO LONDON



New York, London, Tokyo...

The world's three great stock markets are forging mutual links, making 24-hour global trading a financial reality. Events on October 19th show just how interrelated the three major international stock markets have become. Severe jolts were felt throughout the world's financial markets when investors, wary of the U.S.'s enormous trade and Treasury deficits and the weakening dollar, began a massive sell-off. On Black Monday, the New York Dow Jones industrial average declined a record 22.6% in one day. London recorded a similar decline, and the next day in Tokyo, overseas investors sold a staggering amount of stocks, driving the Nikkei Average down 14.9% and triggering the market's automatic loss limiting system. During the week of the crash, the Dow Jones' and Financial Times' indexes fell below their year-high levels by 36.1% and 32.1% respectively.

However, in the same period, the farthest the Nikkei Average fell below its 1987 high was a relatively low 17.8%. And by the week's end, the Nikkei Average had rebounded a strong 4.2%, making the Tokyo market's resilience the focus of attention among international investors.

Individual Investors Help Stabilize the Tokyo Market

The key players in cushioning the fall on the Tokyo market were Japanese individual investors. During the month of October, net purchases by individual investors came to

approximately ¥700 billion, roughly triple the previously recorded high in September. Other Japanese investors who played a stabilizing role in the Tokyo market include financial institutions and corporations, accounting for ¥1,122.9 billion of net purchases, and investment trusts accounting for ¥93.6 billion. This purchasing trend partially offset the selling by overseas investors, which reached ¥2,023 billion in October.

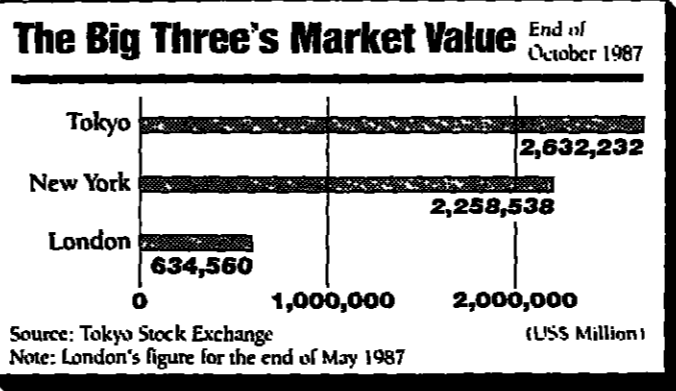
As for the week of the crash (October 19th ~ 24th), overseas investors sold ¥1,045 billion worth of stocks on the Tokyo market. Japanese financial institutions were net purchasers of only ¥78 billion, but individual investors supported the market by purchasing some ¥623 billion worth of stocks, and non-financial institutions were net buyers by ¥190 billion. This buying by Japanese individual investors and corporations counterbalanced the selling by foreign investors in Tokyo. Confidence remained high, and stability returned quickly.

Strong Economy and Solid Savings' Structure

One reason for such strong support buying by Japanese investors is their faith in the fundamental strength of the Japanese economy. Japanese businesses, especially in the hi-tech industries, have overcome the oil shocks of the '70's and the yen appreciation of the '80's and have adapted to the new international business environment. According to the OECD, the combined effect of the fall in stock prices and the low dollar will only slightly affect 1988's real G.N.P., decreasing it by just 0.25%. In fact, the *Nihon Keizai Shimbun* predicts that for the fiscal year ending in March 1988, the average ordinary profit of all listed Japanese companies will increase by 29% over the previous year.

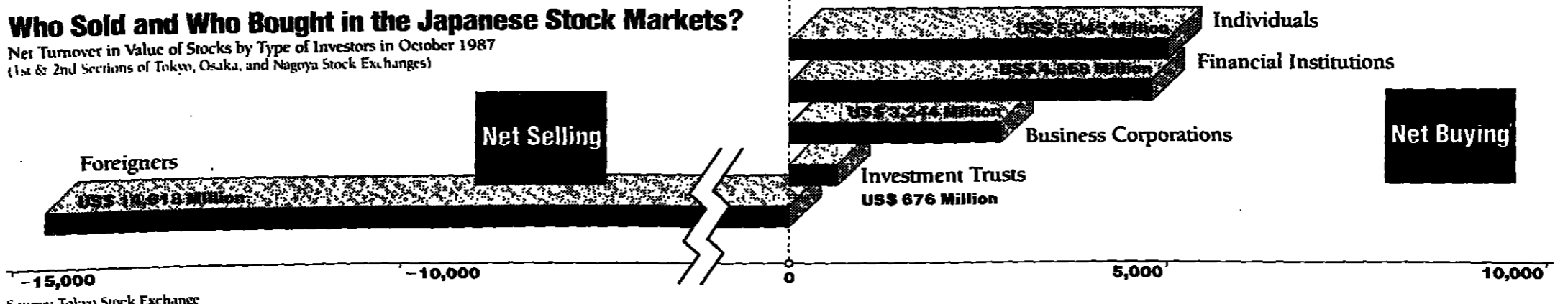
Another reason for investor support is the high rate of individual savings. In 1985, Japan's individual savings ratio reached 16.0%, demonstrating a strong propensity to save. In comparison, the West German rate was 11.4% while the U.S. rate was only 5.2%. Given the percentage of total savings invested in stocks, which is 8.5% lower than the U.S. rate of 22%, erosion of assets due to the crash was relatively slight, despite the strong growth in stock investments. Japanese financial institutions will also continue to use stock investments as part of their asset management programs.

The fundamental strength of Japan's economy has instilled confidence in both individual and institutional investors, which in turn has provided stability in otherwise volatile financial markets. Investor confidence and economic strength make Tokyo the safest market in volatile times.



Who Sold and Who Bought in the Japanese Stock Markets?

Net Turnover in Value of Stocks by Type of Investors in October 1987
(1st & 2nd Sections of Tokyo, Osaka, and Nagoya Stock Exchanges)



Note: All U.S. dollar figures represent translations of yen amounts as supplied by the TSE at the rate of U.S. \$1 = ¥138.40, and are given here for convenience only.

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Agenda

Dollar's Steep Drop Stirs New Interest in Yen

By Marybeth Nibley

LONDON—The Japanese yen has played a bit part on the international scene since World War II, with other currencies, most recently the U.S. dollar, in the leading roles.

The dollar's steep descent this autumn amid growing dissatisfaction with U.S. economic stewardship has stirred new interest in the yen. Although the yen has begun to share more of the limelight in recent years, economists doubt it will ever occupy center stage, at least not for a long time to come.

There are many arguments that can be made for why Japan and its currency should have a more prominent place.

Compared with the rest of the capitalist world, Japan has shown itself more adept at deindustrialization. This process has been painful for most mature economies, swelling unemployment rolls and forcing the redefinition of entire sectors.

Japan has done it better, partly because of a political system that leaves intact a bureaucracy, providing "continuity of purpose that transcends political change, something that can't be said of the U.S. or the U.K.," said Douglas Anthony, a lecturer at the center for Japanese studies of the University of Sheffield.

In addition, the social solidarity Japan is known for has engendered a close understanding between government and business and allowed a cooperation to occur that is unknown elsewhere. The weakness of the labor movement has removed a potential obstacle to that cooperation, Mr. Anthony said.

Recently, the Japanese economy has demonstrated an astounding aptitude for adaptation as the yen has surged against the dollar.

Alan Budd, director of the center for economic forecasting at the London Business School, said the Japanese responded in several ways after the high-flying dollar began losing altitude, particularly against the yen, two years ago.

"When Japanese are faced with difficulties, they work harder," Professor Budd said. "They have been able through their own efforts to offset the impact of the yen's rise."

The hard work paid off in productivity gains. It also resulted in Japan moving production offshore, to South Korea, for instance, to take advantage of lower labor costs and more favorable exchange rates.

"The Japanese have been complaining about exports from 240 [yen to the dollar] down, and the fact is, exports are still doing very well," said Paul Chertkov, director of economics at the London-based investment house Hoare Govett Ltd.

The question now, after the stock market collapse and the dollar crisis, is whether Japanese exporters and the Japanese economy itself can withstand a further appreciation of the yen without sustaining serious damage.

One possibility is that the yen's increasing strength might cancel out the stimulative impact of tax cuts and expenditures on public works projects. Those policies formed the foundation on which Japan is building its future of becoming an economy more driven by

domestic demand after more than a decade of demonstrating export prowess.

In fact, Japan should rightly be seen as an internally powered and agricultural economy, unlike the popular perception of it as an economy relying on exports. Last year, exports of goods and services accounted for 12.9 percent of Japan's gross national product, and shipments to the United States comprised about 5 percent.

Post-crash projections show the Japanese economy expanding by about 3 percent to 3.25 percent, or some .25 percent less than it might have had equities markets and the dollar held up.

Tony Beckwith, an assistant director at County NatWest Ltd. in London, said Japanese exporters would not notice any significant impairment in their profitability until March 1988. He explained that they protected themselves against exchange rate shifts by forward sales of the dollar, meaning that their earnings will be based on a better yen-dollar rate than they would have received now. They locked in a rate of about 145 yen per dollar.

"The fact that the yen is around 135 [to the dollar] now is neither here nor there," Mr. Beckwith said. "Their profits are insulated from any currency movements this year."

Of course, they cannot depend on selling as many video cassette recorders or cars to the important U.S. market due to the Wall Street collapse and the loss of U.S. household wealth that it implies. But Mr. Beckwith believes it will be next spring before Americans decide to curtail spending, so it will be some months before Japanese exporters experience any noticeable reduction in volume.

Beyond next spring, things could be different. The scope for selling the dollar forward will be limited and shipments will likely be down, Mr. Beckwith said. He estimates that exporters' profit growth will shrink to about 10 percent to 15 percent next year from about 25 percent to 30 percent this year.

How well Japan's exporters cope hinges on how fast any further appreciation of the yen takes place.

"If the yen goes to 125 [to the dollar] next year, exporters will still make a profit. But if it goes to 125 tomorrow, exporters will suffer," said Hitoshi Okuda, an economist at Nomura Research Institute in London.

Many analysts expect that the yen still has some distance to cover before ending its upward climb against the dollar, and they expect the yen will catch up on the Deutsche mark, based on the greater anticipated strength of the Japanese economy than the West German economy.

With the West German economy growing only about half as fast as Japan's, the yen should appreciate to about 75 yen to the mark next year, compared to about 80 yen now.

The yen could trade in a range of 125 to 135 to the dollar, perhaps temporarily reaching 120 in volatile situations, economists said. Japanese exporters are believed to have prepared their budgets and profit forecasts for next year based on the yen fetching anywhere from 120 to 130 to the dollar.

Attention has been focused on Japan lately with pundits offering opinions on how well its huge stock market will fare in coming months.

The market has not suffered as badly as others, because the Japanese themselves picked up shares dumped by foreigners.

Owing to large losses on equities overseas, Japanese investors retreated, opting to park their money at home.

According to Brendan Brown, chief economist at County NatWest, the "domestic stay-at-home philosophy" is one reason why the yen will rise more.

If Japan is able to keep its stock market afloat through what many observers consider artificial means, "they will have proved that they can control their market and they can control their currency," said financier Sir James Goldsmith.

In an interview with Time magazine, he said, "If they succeed, there will have been a transition of economic power from the U.S. to Japan. . . . If the U.S. now thrusts economic power into the hands of the Japanese, 10 years from now the two superpowers may be the Soviet Union and the Japanese."

There is very little likelihood of such a high Japanese profile for a variety of reasons, economists said.

Recent rumblings from the Japanese Finance Ministry in favor of a more even distribution of economic power among Japan, the United States and West Germany have led to speculation that such a new power equilibrium would be balanced on the currencies of all three countries, replacing the current dollar-based arrangement.

But economists interpret the rumblings as Japanese commentary on U.S. fiscal irrespon-

sibility rather than as a declaration of desire to assume world economic leadership.

The massive intervention carried out by the Bank of Japan during the dollar's autumn slide was motivated by domestic considerations. The huge purchases by Japan reflected fears that a prolonged dollar free-fall could cause sales to the United States to disappear, economists said.

Becoming the world's banker would involve duties that Japan is reluctant to perform and would force it to sacrifice some of its independence.

"If you are the custodian of the world's reserve currency, you get certain benefits but you also have certain responsibilities," Professor Budd said. "The question for the Japanese is, are they prepared to have both sides of the balance?"

The answer seems to be no, for the foreseeable future. Some economists say Japan could be ready by the end of this century because it already has started to affect the world instead of being affected by it.

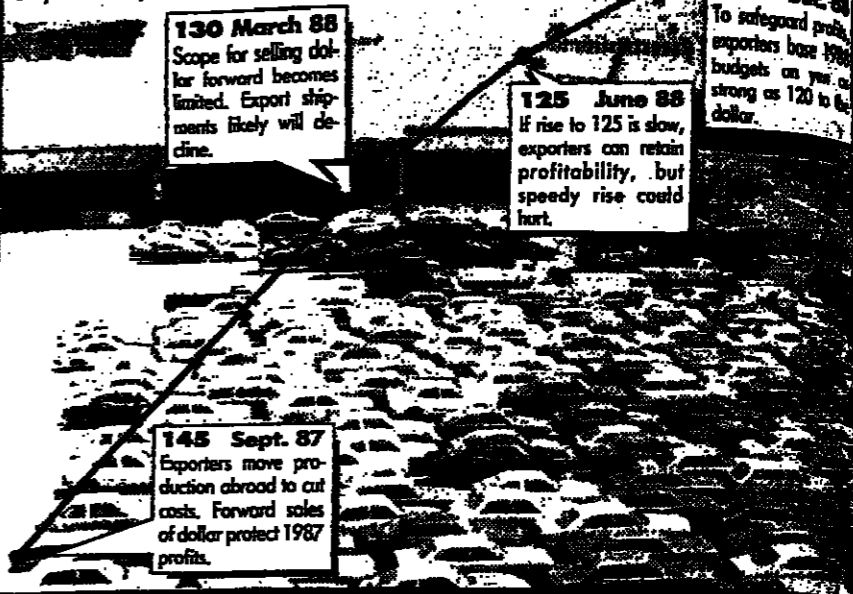
"It is a fashionable idea to think Japan has decoupled itself from the U.S. economy," said Mr. Brown of County NatWest.

An impediment to a higher yen profile is the relative unattractiveness of yen holdings. Yen-based interest rates are much lower than European or U.S. rates, making returns less appealing.

Another reason to think things will stay as they are for the yen is the new prime minister, Noboru Takeshita. He was groomed in Japan's

The Rising Yen: How Exporters Cope

Japanese yen to the dollar



traditional consensus-building school and is thought to be less interested in world affairs than other Japanese politicians, such as Finance Minister Kiuchi Miyazawa.

Finally, there are habits. People are accustomed to the dollar.

According to Peter Beckett, chief dealer at

the London branch of the Canadian Imperial Bank of Commerce: "The world will always trade dollars. The world will always trade dollars."

MARYBETH NIBLEY is a financial journalist based in London.

Imports Fail to Blunt Edge of Trade Surpluses

By Andrew Horvat

TOKYO—The slogan on hundreds of luggage carts in the customs area at Tokyo's Narita International Airport reads: "Imports Bring Us Closer Together." The message is indeed a sign of the times. But hardly an hour away by car, at the Ohi branch of the same customs bureau, old habits seem to die hard.

"I told you to fill out your documents incorrectly," said a clerk at the Sumitomo warehouse at Ohi. A foreign resident had failed to pay attention to the clerk and had used his correct address on his customs forms.

"It is incorrect on the package, so it has to be incorrect on your customs form, too," the clerk insisted, refusing to hand over the foreigner's goods until he went back to the customs office, revised his address to the incorrect version and had his documents stamped "corrected" by an official.

The clerk's colleague looked at the foreigner, who was by now cursing under his breath, and said: "Please do as he says. The customs officials check our work and if the two addresses do not coincide exactly, we are in trouble."

In spite of a rollback of customs duties on nearly 2,000 items and an 80 percent increase in the value of the yen against the dollar in two

years, nontariff barriers continue to blunt the edge of successive attempts to decrease Japan's embarrassingly huge trade surpluses. Last year, Japan's overall trade surplus surpassed \$80 billion.

All the same, there have been some remarkable changes. Government officials realize that the survival of the world trading system, on which Japan's continued prosperity depends, hinges on Japan's ability to absorb more imports.

The Japan External Trade Organization, which at one time devoted all its energies to promoting Japanese exports, today runs a free counseling service for consumers wishing to bypass importers and middlemen and engage in what is known as *keihin yuzen*, or individual imports. The campaign is based on the belief that imports are expensive because of high markups on low-volume sales charged by middlemen.

With the exception of formidable growth in intermediate manufactured imports from Taiwan, Singapore, Hong Kong and South Korea by Japanese companies wishing to load their export products with cheaper parts to make them more competitive overseas, by and large, the increases in Japan's imports so far consist of more show than go.

For example, while Japan registered a year-to-year decrease in its trade surplus for five

consecutive months this year, Finance Ministry officials have acknowledged that the decline in the trade gap has been due in large part to the jump in the price of crude oil. The per-barrel price last October had been \$12.75; a year later it had risen to \$18.39.

In October, Japan's surplus with the European Community widened; imports fell by 16 percent while exports went up by 19 percent. While Japan's surplus with the United States shrank in that same month by \$30 million, Japanese trade statistics factor insurance and freight into the cost of imports (but not exports), thus, U.S. figures that show FOB in both directions for October are likely to indicate a continued growth in the Japanese black figure. It was only in Japan's trade with Southeast Asia that the surplus contracted noticeably, from \$1.11 billion in October 1986, to \$864.5 million in the same month this year.

The Finance Ministry reported that customs-cleared trade plunged to a \$2.09 billion surplus in the first 20 days of November, from a \$3.9 billion surplus a year earlier. (The ministry does not release a country breakdown for the interim trade figures.)

Perhaps the best illustration of the difficulties imports continue to face in Japan can be seen in the case of automobiles. A relaxation of previously stringent inspections of foreign cars has resulted in a steady increase in imports.

Last year, even after a 35 percent increase in foreign car sales, imported vehicles accounted for a little more than 1 percent of all car registrations. Even when trucks, buses and compact cars are excluded from statistics, the 68,357 units sold represented an import penetration of about 2 percent; this compares with roughly 25 percent in the United States, 31 percent in France and more than 40 percent in Britain.

What makes such low volume sales so attractive is that almost all foreign cars sold in Japan are at the luxury end of the market.

Next year, however, there will be a new kind of imported car to which no Japanese official is likely to object. Honda will start importing cars from its American factory at Marysville, Ohio. Initial shipments of the American Accord will be 3,000 units, but by 1991, the company hopes to import 50,000 cars per year.

To what degree such imports will represent re-importation of what Japan has exported—Sony already does this with picture tubes from San Diego—is difficult to say.

While such re-importing may swell Japan's manufactured imports statistics, it may not be very far in convincing foreign competitors that the Japanese market is truly open to outsiders.

ANDREW HORVAT is the Tokyo correspondent of The Independent.

FAMOUS DAIWA DIALOGUES

"Since Mark Anthony left for Rome, the Royal Treasury seems a bit depleted."

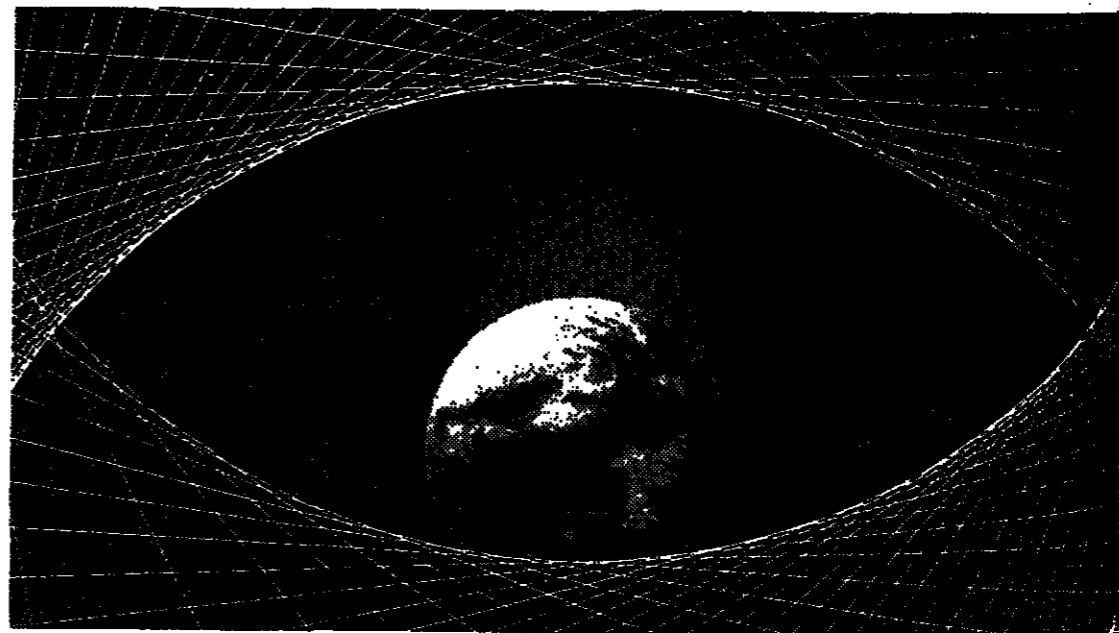
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Reluctance to Boost Domestic Demand Sours Trade Ties With U.S.

The perception in Washington: Japan only moves if it is slapped in the face with strong, unexpected action.

By Stuart Auerbach

WASHINGTON — The United States' relations with Japan "could hardly be better" except for "one bad apple — trade," Commerce Secretary C. William Verity told the National Press Club here early last month in his first major speech in his new job.

One week later, Mr. Verity left for Japan and found out just how bad an apple trade is in the totality of a relationship that U.S. Ambassador Mike Mansfield calls "the most important in the world."

At every point, the new Japanese government of Prime Minister Noboru Takeshita rebuffed Mr. Verity's call for greater and quicker moves to end public and private practices that keep American and other foreign companies from doing business in Japan with the same ease that Japanese companies have in the rest of the world.

In the end, Mr. Verity insisted that the negative reception given to the substance of his visit was not disappointing.

But to administration officials here, it signaled that their worst fears had been realized and that relations between the United States and Japan face greater trade frictions now than in the past few years.

"Japan has got a big problem with us for a change," said a senior administration trade official. He added that this was a turnaround from the past, when it was the United States that had problems with Japan.

In speech after speech in Japan, Mr. Verity warned that Japan faces retaliation from the United States, its largest trading partner, if it continues its protectionist practices. "Our trade imbalance with Japan is simply not sustainable," Mr. Verity said in a speech to the Japan National Press Club. That imbalance was \$58.6 billion last year.

Mr. Verity bared in an Japan's refusal to open \$62 billion in public works projects to foreign bidders and on a new irritant: Japanese companies' failure to increase export prices to match the sharp rise in the value of the yen.

"There will be a very difficult time trying to keep our Congress from retaliating in some way" because of Japan's closed attitude on

giving equal access to foreign construction companies, he said.

But that is a hot potato of a political issue in Japan, since Mr. Takeshita and his faction of the ruling Liberal Democratic Party maintain close ties with the Japanese construction industry.

In Washington, administration officials, aware of the negative atmosphere that Mr. Verity met with in Tokyo, laid the groundwork for U.S. retaliation against Japan over the public works issue. A subcommittee-level group has approved the retaliation, the second this year against Japan's trade practices, but the cabinet-level Economic Policy Council was not likely to discuss it until after the visit of Mikhail S. Gorbachev, the Soviet leader. Only Secretary of State George P. Shultz has been reported to oppose the retaliation.

There is a growing perception in Washington that Japan only moves if it is slapped in the face with some strong, unexpected action. The view that Japan will move away from protectionism only by actions, not negotiations, is widely held among some members of the Reagan administration and on Capitol Hill.

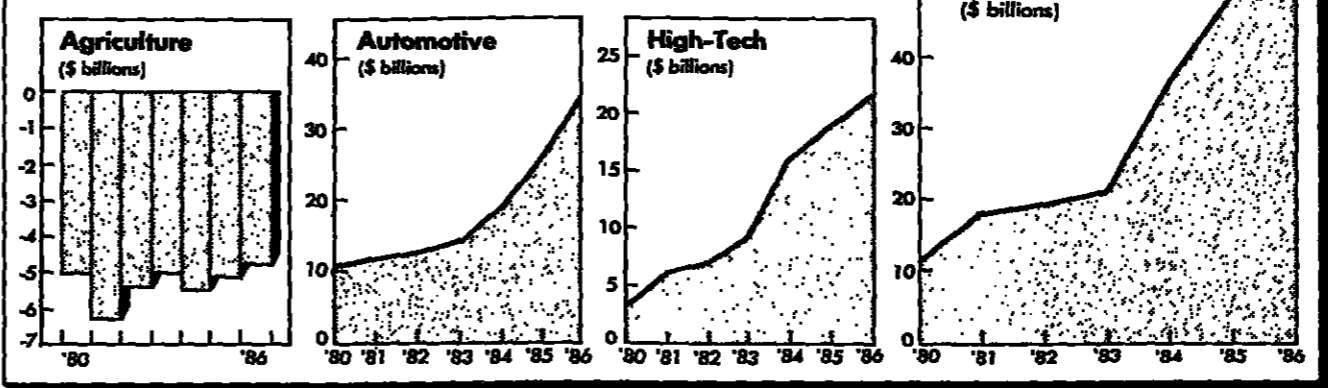
This appraisal is buttressed by three major examples of Japan's taking action only after a shock. Japan began to change its economy away from total dependence on exports to one driven to a greater degree by domestic demand only after suffering through yen shock. There is a feeling in Washington, however, that the yen has to increase even more in value to force Japan to boost domestic demand. That will make Japanese products cost more in foreign markets, and therefore become less competitive, while imports will become cheaper and more competitive in Japan.

It took the shock of President Ronald Reagan's retaliation against Japan for failing to keep the semiconductor trade agreement to force Japanese manufacturers to stop dumping memory chips in other countries. Despite years of growing trade friction between the United States and Japan, this was the first time the United States had actually placed sanctions on Japan.

Although Mr. Reagan found that Japan had stopped dumping, he also said it was not keeping an equally critical part of the agreement

Japan vs. U.S.: Tracking the Trade Surplus

Japanese imports of American high-technology and automotive products increased 36.7 percent from 1985 to 1986, while exports grew by 18 percent, but Japan's trade surplus for manufactured products continues to grow. The U.S. edge in agricultural trade, meanwhile, has declined for two years in a row.



calling for it to buy more U.S.-made memory chips. As a result, Mr. Reagan has continued some of the sanctions. The pressure of the sanctions is also believed to have forced Japan to begin buying some American supercomputers for its government offices and universities after years of stalling on such purchases.

Finally, Japan only began to get serious about doing its part to keep militarily-sensitive technology away from the Soviet bloc when the Senate voted overwhelmingly this summer to ban the sales of all Toshiba products in the United States. This was in retaliation for Toshiba joining with a state-owned Norwegian arms company, Kongsberg Vaapenfabrikk, in selling the Soviets computer-controlled milling machinery that allowed them to make their submarines quiet enough to evade Western detection.

With new sanctions on the horizon, Japanese diplomats are reported in Washington and in Tokyo to be trying to postpone any talk of retaliation until Mr. Takeshita makes his first visit to the United States in January. In the past, the Reagan administration has bowed to this kind of request in an effort to keep the waters calm. It is unclear, however, whether the effort will succeed this time.

Government officials and business leaders visiting Washington from Japan, meanwhile, are arguing against sanctions by saying that they anger the Japanese, who feel that they are

being punished unfairly for their successes. Even the outgoing prime minister, Yasuhiro Nakasone, argued against sanctions in his final letter to Mr. Reagan.

"I believe that the working principle for us has been that our two countries work jointly to resolve our problems rather than resorting to unilateral measures, such as [retaliation] based on Section 301 [of the U.S. trade laws]," Mr. Nakasone wrote.

"It would be most unfortunate," Mr. Nakasone continued, "if the working relations between the new Japanese administration and yours were to take off on the wrong foot. I earnestly hope you will be able to give a well-considered political decision on this issue from the viewpoint of the overall U.S.-Japan relations."

But there may be deeper troubles for Japan just over the horizon. For years, Japan has been able to fend off threats of trade retaliation by appealing to the deeper relationship between the two countries, especially its strategic importance in the Pacific and its role as a good ally around the world.

But now that relationship is being called into question. Conservative Republicans on Capitol Hill, mainstays of the move to punish Toshiba for its sale of strategic goods to the Soviet Union, also are jumping on Japan for its trade ties to Nicaragua, Vietnam and Cuba. (At the same time, blacks and other liberals are

angry at Japan for its increased trade with South Africa.)

Japan faces increasing criticism, moreover, for not pulling its weight in keeping the Gulf sea lanes open, especially since the bulk of its oil comes through waterways protected at great expense and some loss of life by the U.S. Navy. This criticism has grown with Japan's refusal to join in a U.S.-led boycott of Iranian oil.

Mr. Verity brought up the oil boycott in Tokyo, promising that Saudi Arabia and the United Arab Emirates could make up the shortfall. "It might be the lever that will bring Japan into the UN cease-fire plan in the Iran-Iraq War," he said.

Some elements in the Pentagon, furthermore, are concerned about the defense establishment's growing reliance on foreign suppliers, largely Japan, for the high-technology components required in modern weapon systems. This concern was largely responsible for the political battle that led to a Japanese company, Fairchild, withdrawing from a deal to buy a major Silicon Valley semiconductor company, Fairchild's, earlier this year.

This concern also provided the force behind a letter from Bruce Smart Jr., Commerce Department undersecretary for international trade, suggesting that a purchase by the Massachusetts Institute of Technology of a Japanese-made supercomputer might spark an unfair trade practice complaint from the Reagan ad-

ministration. As a result, MIT decided against buying the Japanese supercomputer.

A Japanese trade official in Washington called Mr. Smart's letter "a slap in the face" to Mr. Takeshita, who was just about to take office when it was written.

It appears likely that Japan can expect more blunt words from the United States. Before leaving for Tokyo, for instance, Mr. Verity pointed out that Japan suffers a credibility gap in that it has continually promised market-opening moves, but that they have resulted in few U.S. sales.

In a speech in Japan, Mr. Verity said Japan has gained more than any other country from an open trading system and listed five ways in which it has failed in its responsibility to keep it going.

He said that Japan is the only major industrialized nation that has failed over the past 20 years to increase its imports as a percentage of gross domestic product. For Japan, the percentage fell, from 1.8 to 1.6, while the figure for the United States rose from 1.8 percent to 5.4 percent and for Britain from 1.8 percent to 5 percent.

Two years ago, Japan took just 7 percent of the manufactured exports of Third World countries compared with 63 percent for the United States, Mr. Verity said.

Japan still refuses to allow government entities to buy foreign satellites "despite years of space cooperation between our two countries in which our government has generously shared its technology and resources," he said.

While Japanese construction companies do \$2 billion worth of business in the United States, foreign companies are not allowed to compete for public works jobs run by the government of Japan.

The United States is willing to put its farm policies on the table in the new round of the General Agreement on Tariffs and Trade. But Japan, whose citizens pay exorbitant prices for food to protect its inefficient agriculture sector, maintains strict farm quotas that just have been denounced by GATT and refuses to discuss an end to its barriers to any imports of rice.

As bad as trade relations appear at the moment, Mr. Verity voiced the hope of most American leaders that things will get better in what he called a new era of "mutual responsibility in shared leadership."

But the first item on his list appears to be the hardest for Japan to accept. It poses the question: "Can we join forces and work together to reduce the protectionist elements of the Japanese economy and open new markets in Japan for world traders?"

STUART AUERBACH reports on international trade for The Washington Post.

'Made in Japan' Becoming Less So

By Andrew Horvat

TOKYO — This time last year, stock market analysts were advising their clients to stay away from the shares of Japanese electronics makers. The argument the analysts were offering was that the 70 percent decline in the value of the dollar against the yen in a little more than one year had destroyed all hopes of profitability for such export-oriented companies.

A year later, six of Japan's major electronics makers — Fujitsu, Hitachi, Toshiba, Mitsubishi Electric, Sharp and NEC — all showed increased pre-tax profits and expected to finish the fiscal year (ending March 1988) with increases ranging from 5.8 percent to just under 100 percent.

Electronics companies were not alone in confounding the experts. Toray, a leading chemical fiber company, was one of many that was expected to suffer. But Kiyoshi Fukami, a director at Toray, said in a recent interview, "Our operating profits for the six months ending September have almost reached the record levels of 1984."

In September 1985, when the finance chiefs of the world's five leading industrialized countries decided in New York's Plaza Hotel to send the dollar tumbling against the yen, their hope for Japan was that a higher currency would lead to a restructuring of the Japanese economy, dulling the competitiveness of Japanese products and forcing Japanese industry to look to domestic demand for increased profits.

While such domestic demand areas as housing and public works have boomed because of generous govern-

ment funding this year, many of Japan's export-oriented industries, which initially suffered from a high yen, have managed to engage in some restructuring of their own.

As Toray's Mr. Fukami explained, his company trimmed its marginal operations, cut 1,000 workers from its payrolls and reaped the benefits of previous investments in factories in Southeast Asia, where currencies remained stable against the dollar.

The formula used by other companies to boost the competitiveness of their products is remarkably similar. It consisted of importing basic components from plants in the newly industrialized countries (NICs) of Asia, exporting production to them and using severely rationalized factories at home to supply the domestic market.

Aiwa, a middle-level electronics maker with close ties to Sony, offers an extreme example of such rationalization. Whereas last year Aiwa relied on its Singapore plant for about 12 percent of its Japanese sales, by next year that ratio is expected to shift to 50 percent.

Unlike many Japanese electronics manufacturers, who look to the NICs for cheap parts, Aiwa imports its own fully assembled cassette recorders from Singapore although its higher value-added products are still assembled in Japan. Matsushita, the electronics giant, also hopes to reduce its dependency on Japanese plants from 86 percent this year to 75 percent in the medium term.

Ed Mermer, director of Schroder Investment Management Japan, says that Japanese electronics makers have resorted to a two-pronged method of cost-cutting: "They have drastically simplified and decreased the parts that

make up their machines — say from 1,000 parts in a video tape recorder to about 200 — and they have increased the number of parts they import from their overseas subsidiaries."

Toshiba and Sanyo, for example, are importing picture tubes from South Korea for television sets assembled in Japan. At many discount shops in Tokyo, the electronic items say on the box "Made in Japan," but little other than the final assembly is done in Japan. The Japanese have begun to call this phenomenon international distribution of labor.

Although the most widely publicized examples of such redistribution are offered by the Japanese auto industry, which in five years is expected to produce almost as many cars in North America as it exports from Japan at present, many Japanese car firms moved production abroad reluctantly, mostly in order to placate protectionist sentiment in the United States.

SOME of the most successful cases of strategic planning to beat the high yen are offered by small and medium-sized firms, which have nearly quadrupled their overseas investment in dollar terms since 1983.

For example, the Yamahiro company, a specialist in bolts for the construction industry, supplies the American market from an affiliate in South Korea, and its Common Market customers from its own factory in France.

"We experienced one very tough year in 1978," said Fukunoshige Kawashita, president of Yamahiro. "That was when we decided to build a plant that could be profitable at 170 yen [to the dollar]." The company's Osaka plant,

where tiny boxcars full of bolts move silently on rubber tracks from one numerically controlled machine to another, was completed in 1984, just in time for the 80 percent increase in the value of the yen against the dollar, a process that started with the Plaza accord in September 1985. Mr. Kawashita says his goal is to cut out exports from his Osaka plant altogether, but 50 percent of production still goes abroad.

The relocation of manufacturing away from Japan has not gone unnoticed by unions and paternalistic bureaucrats at the Ministry of Labor. While the process is expected to strengthen whole industries, it has led to an increase in unemployment. Officials at the ministry expect serious problems, especially for middle-aged blue-collar workers let go by smaller companies. According to one official estimate, nearly half a million jobs have already been moved out of Japan since late 1985 and another 2.2 million employment opportunities are expected to be moved abroad by 1995.

Another casualty of change has been the strong links between large assemblers and their traditional suppliers. Until recently, the semi-feudal relationship between car companies and their component suppliers was seen as uniquely Japanese, and unlikely to change. Certainly, the relationship was often cited by the car companies as a reason for not buying foreign parts.

But Teikoku Chrome, which specializes in the plating of body dies and which until last year supplied only one of Japan's nine automakers, as of this year is selling its services to anyone willing to pay. As Teikoku's president, Toyohiko Ichikawa, put it recently: "One day we were told we had to lower



Workers on an assembly line at Nissan's factory at Zawa.

our prices." Mr. Ichikawa's response was to cut his ties with his parent company from 100 percent to about 30 percent and offer his services to other automakers.

Teikoku, however, argued from a position of strength. The company has a plating technique that it developed on its own. For thousands of small Japanese companies located in 55 specially designated export-dependent areas difficulties remain. Between October 1985 and August this year, nearly 3,500 such firms went out of business as a result of the high yen. Of these, 272 went bankrupt and 3,148 quietly stopped produc-

tion before they started losing money. Perhaps nowhere in Japan is suffering as extreme as at the city of Tsu, where 3,000 tiny companies employ 16,000 workers to make cutlery and houseware, almost 80 percent for export. Few of Tsu's firms have the capital and know-how needed to make the kind of changes mentioned above.

But even here, there is hope for a few larger companies, a number of which are famous throughout Japan for some far-sighted strategy that has paid off. Kobayashi Kogyo, for example, has consciously reduced its exports and has

concentrated on developing Western-style cutlery for a market where few families own a full set of knives and forks. Kobayashi's designers went for the gift market, assuming correctly that even if Japanese will not buy knives and forks for themselves, they might be persuaded to buy them for others.

And as the yen continues to climb against the dollar, the move overseas is picking up speed. The latest announcements of relocation of manufacturing facilities came from three companies moving part of their production to Wales. Their decision will take 500 jobs away from Japan to Britain.

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Property Boom And Speculation Buoy Economy

By Gregory Clark

TOKYO — From deep pessimism, Japan has shifted to bullish optimism about the future of its economy. The manufacturing sector, which six months ago was supposed to be reeling from the blow to exports caused by the more expensive yen, now sees a hefty 40 percent increase in profits in the fiscal year ending March 1988, according to one authoritative study.

Government economists have followed suit. They have now raised the estimate for real GNP growth for this fiscal year to close to 4 percent. And this is allowing for export problems and the fall in the stock market.

And last week, the Economic Planning Agency announced that the economy had grown at a robust 2 percent for the three months ended in September from the previous quarter, the highest increase in three and a half years and equal to an annual rate of 8.4 percent.

Why the turnaround? The conventional wisdom here says it is all due to vigorous cost-cutting efforts by embattled manufacturers, combined with the 6 trillion yen (\$45 billion) spending package unveiled by the government in the middle of this year. But the impartial observer is entitled to some skepticism. Abnormal rises in land and share prices are a much more important — even if much overlooked — factor.

Cost-cutting may raise profits, but it does not necessarily increase sales. Indeed, with the slowdown in exports and the sharp rise in manufactured imports, mainly from other Asian countries, manufactured sales are seen as rising only 2 percent this fiscal year. As for government spending packages, at this stage they can only have a psychological effect. Much more time is needed before the money can be spent, let alone create ripple effects.

What is really driving the economy is something very different — the wave of speculative fever that began to sweep over these islands some two years ago and which has

yet to run its course fully. At its peak, it had pushed up the Tokyo stock market by more than 50 percent from its earlier highly inflated level. In many areas of the major cities the land boom has pushed up prices by several hundred percent.

The result of this has been to push up the total value of land and shares in Japan by a staggering 400 trillion yen. This is equal to \$3 trillion, more than the entire annual GNP of Japan. By any reckoning, it is a lot more than a largely unsuspected 6 trillion yen the government talks about so eagerly.

True, it is a 400 trillion yen increase in paper wealth, not real wealth. But that does not mean it is without real effects on the economy. Clearly, it has done much to remove the pessimism caused by the 100 percent appreciation of the yen against the dollar in the past few years. More important are the strong effects it is having on spending. While share ownership is not widely dispersed in Japan, land ownership is. Most Japanese own the land on which their houses stand. And if any of those houses happen to be in a major city, then most of those Japanese have become dollar millionaires overnight.

Already, we see the results in the strong upsurge in demand for luxuries, and the upgrading replacement of consumer durables. Some of this extra demand is slipping over into foreign products — instant millionaires trading in their three-year-old Toyotas for brand new Mercedes-Benz. But enough remains in Japan to make Japanese manufacturers happy, too.

On top of this is the construction boom caused by high land prices. Now that his land is worth several hundreds of millions of yen, the average Japanese is much keener to pull down whatever was there before and build something better on it, especially since the banks are now willing to lend him much more than before. Demand for building materials has risen so strongly that even the heavily slumped steel and chemical industries are experiencing a mini-boom and prices of some products have more than doubled.



Growing demand for luxuries: Tokyo shoppers pause at Gucci

Cost-cutting may raise profits, but it does not necessarily increase sales.

How long will the boom last? Psychologists rather than economists can give the answer. The Japanese now have an almost mystical belief in the never-ending strength of their economy. If anything, the recently exposed weaknesses of the U.S. and West European economies have made them even more bullish about the future. Most of them genuinely believe there is nothing absurd about average stock market price/earnings ratios in the seventies and eighties. They see these prices as being justified in a few years by ever-rising company profits.

The land boom has been harder to rationalize. Rates of return on office blocks fall to between 1 and 2 percent when the cost of land is included. And only speculative madness can explain why anyone would want to pay several million dollars for a mediocre house in a distant, middle-class suburb of Tokyo. The plight of house-seekers has forced a government promise to try to curb land prices.

On the other hand, given the surplus of funds slopping around in the Japanese economy and the unwillingness of the government to take proper measures to end speculation — a capital gains tax on shares and a sensible level of tax on land-holding — the boom could be hard to kill. Most predict a fallback in land prices of only

around 20 percent to 30 percent, with a rebound in a few more years.

The government says it will start refusing permission to people who want to buy land at inflated prices. It says, too, it will cut sales of public land to reduce the fever that surrounds such sales. Neither step seems likely to change the land situation greatly.

In the meantime, the indicators remain firm for almost every sector of the economy. The nonmanufacturing sector, which expects a fall in profits of around 15 percent in the six months to September — a delayed response to the yen appreciation shock — hopes to come back by 3.5 percent in the latter half of the fiscal year. In the same period, manufacturers believe they can further accelerate profit rises.

Of course, if the U.S. stock market has further setbacks and Japan's 400 trillion yen bubble collapses, all this goes firmly into reverse. Japan's export economy is clearly suffering; with 40 percent of its exports going to the United States, the weakness of the dollar hurts Japan much more than, say, West Germany, which does much more business with its non-U.S. trade partners. A blow to the domestic economy would be a double punch; worse, the blow would come just as much of the construc-

tion now under way comes onto the market.

Given the high level of borrowing for building in Japan, widespread bankruptcy would result. Nor could the government do much. The Japanese now like to criticize the United States for its fiscal deficits, but past Japanese deficit spending has given Japan a debt burden even larger than that of the United States. The government believes it has little choice but to keep to its pledge to restrain public spending, with the one exception of its 6 trillion yen package. And even that package would be in doubt, since much of it is to be financed by the large revenue gains the government expects from the land and share booms.

Nor would Japan's problems end there. A speculative collapse in Japan would almost certainly have repercussions on share markets around the world, enough to guarantee a world recession. This, in turn, would do further harm to Japanese exports. It would also slow down the flow of Japanese funds abroad, putting further upward pressure on the yen. Japan's optimistic dreams of the future would remain just that.

GREGORY CLARK is professor of international business at Tokyo's Sophia University.

Banks Need to Lose Fat As Easy-Profit Era Ends

Special to the IHT

TOKYO — Under Japan's old system of controlled capital markets, the bigger you were, the better you were. No longer is that true. Competition brought on by financial deregulation and external pressure on Japanese banks, to bring them into line with international measures of banking security, are forcing them to shed their obsession with size and look to quality and sophistication.

U.S. and European demands for stricter capital adequacy rules, coupled with the recent stock market collapse, are also forcing the men from Marunouchi, Tokyo's main banking district, to look closely at how they value themselves and how others value them.

The Japanese banks may well adapt to the new financial regime as rapidly as they took over the top positions of the world's biggest banks.

There was no mystery behind this burst of Japanese banking power. The rigid compartmentalization of the system into city banks, long-term banks, trust banks, regional banks, mutual savings and loans banks and a myriad small local credit agencies was firmly established on a base of controlled interest rates that allowed each institution to accept deposits and lend them out again at a guaranteed profit.

There was no competition to disturb the main activity of building up a huge deposit base. Several years of record trade surpluses fattened the balance sheets further.

The gradual deregulation of interest rates has, very simply, shaved away that large profit margin on straight lending. To make a quick adjustment, however, banks will have to be fast on their feet to provide new and competitive services to clients at reduced profit margins. Some may feel the pain. Some may not survive.

Indexes of Japanese banking profitability tell a sorry tale over recent years. The return on assets of all banks, the ratio of their net income to total assets, has fallen from about .75 percent to a mere .25 percent since 1970. Over the same period, banks' return on equity, the ratio of net income to stockholders' equity, has slid inexorably from near 20 percent to around 10 percent.

Scrutiny of Japanese banks' capital adequacy ratios has provided them with another headache. Debate continues over how the huge stock holdings of the banks should be valued and whether they should be counted toward the banks' financial backing. Some people, most of them Japanese bankers, say these so-called hidden assets are a prime source of strength. Others, the Bank for International Settlements among them, say such assets are far too susceptible to stock market turbulence to be counted in prudential ratios.

The October market crash could not have come at a worse time for proponents of the first argument. The Tokyo market fell 17 percent, shaking the long-held conviction that Tokyo was immune to the volatility of world markets. Many stock analysts believe it is a bear market waiting to begin.

Zaitech, or the financial speculation in Japan over the past few years, also lurks like an evil spirit over the banks. Bank lending has been a major part of funding for zaitech operations, which have helped push stock and land prices higher and higher. The

Bank of Japan has consistently warned against zaitech but has seemed unable to stop it. The fear now is that zaitech and the banks' assessment of their financial stability based on the value of their hidden assets could combine to produce one great financial disaster.

What would happen if Japanese stock prices tumbled further, undermining the value of banks' hidden assets, which they had calculated toward their lending base and on the security of which they had loaned money to fuel the zaitech craze? The result could be dramatic.

That, however, has not yet happened and moves are afoot to head off such a collapse. The Ministry of Finance already requires banks with international activities to achieve a capital adequacy ratio of 6 percent by 1988. But it allows them to count 10 percent of the unrealized capital gains on their hidden assets toward this. The Bank for International Settlements would like to see that reduced to less than 50 percent.

To bolster their capital, big banks have been issuing new equity. But weak stock markets may also hinder further equity issues. Smaller banks in particular may find investors reluctant to take on more equity.

CAPITAL adequacy aside, the big banks also say that they are not nearly as exposed to bad loans as, for example, their American cousins. Bank of Tokyo has the highest exposure to Third World debt, amounting to about 160 percent of equity. Long-term Credit Bank is said with close to 90 percent. The rest are well below that. As for exposure to bad domestic debt, Industrial Bank of Japan is highest, at 65 percent, and the rest are significantly lower.

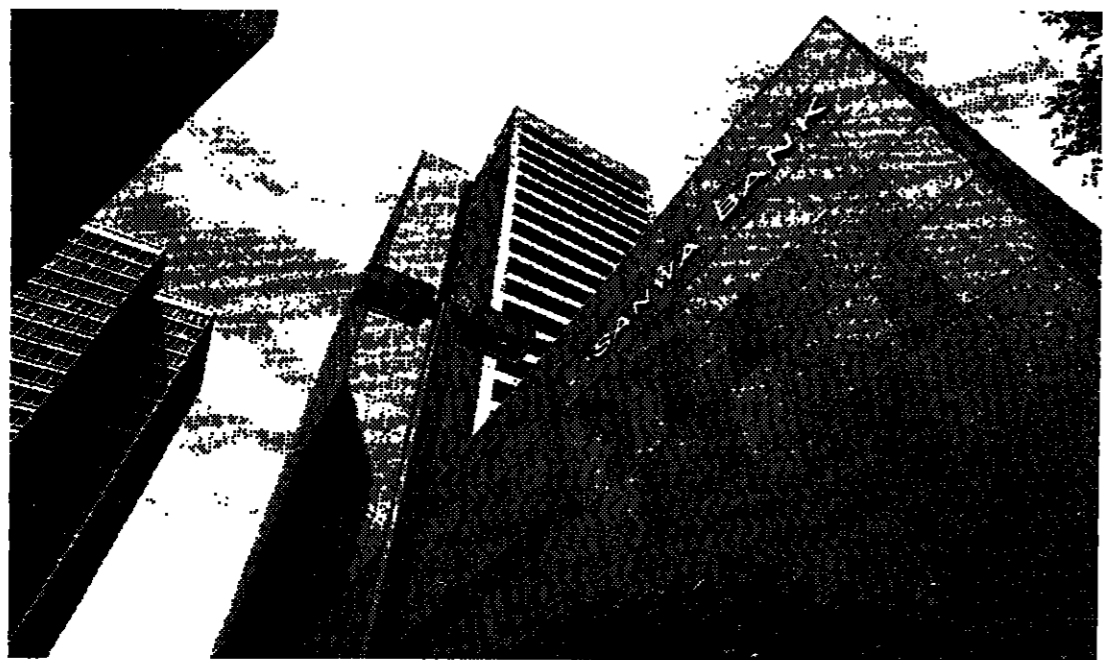
Japanese banking is, nevertheless, still at the crossroads. It must decide whether to take the road to a completely free capital market or continue to shelter behind the walls of government regulation and established vested interest. Top bankers realize that the second choice is already closed to them.

Unfortunately, to move smoothly down the road to a free market, the banks will eventually have to divest themselves of the stock holdings that local banking and industry into that maze of mutually supportive cross holdings that has been dubbed Japan Inc. Whether the banks can do this in a rising market, or whether they will be forced to do it in a falling market, will be crucial.

Meanwhile, in the search for better profit margins, old banks may take on new roles. The 13 city banks are perhaps best positioned to open up the potentially huge individual savers and borrowers markets in Japan, a market that was virtually ignored during the country's period of export-led growth. Consumer credit and personal savings become much more important as Japan moves toward domestic-led expansion.

And there are the nation's 64 regional banks. The regionals are blessed with a firm local funding and lending base, and do not suffer from the kind of international exposure problems that the major hold. They are also very big. Japanese regional banks hold almost every one of the 50 positions from 51-100 in the league of the biggest world banks. The regionals are rapidly moving overseas.

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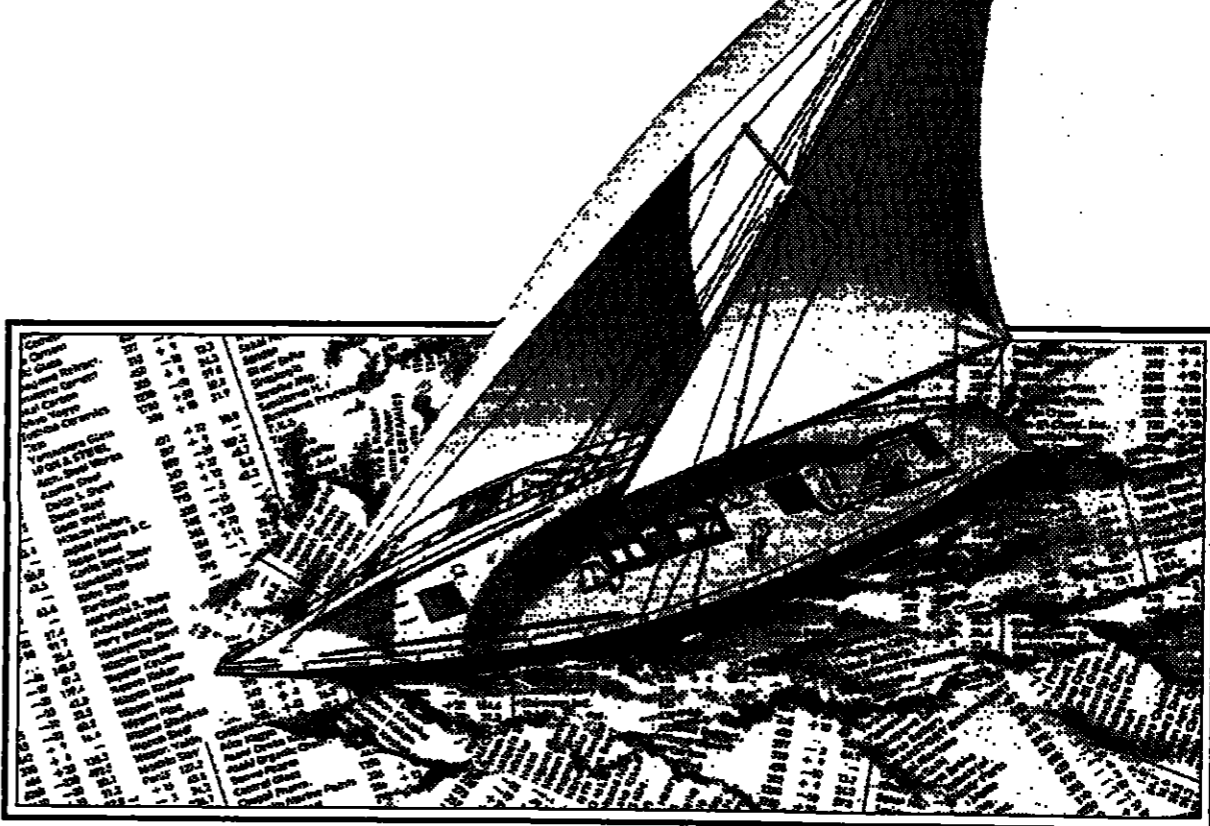
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مكتبة التعمير

The Housing Market

Tokyo's Spiraling Property Prices Risk Creating a Two-Class Society

e Fat Ends

Banks now offer 'two generation' mortgages in which the eldest son or another heir is expected to assume payments after the owner retires.

By Darryl Gibson

TOKYO — This month, 40 lucky Japanese out of about 3,200 ticket holders will win a lottery run by the Tokyo Metropolitan Housing Supply Corp. However, most of the winners will be running off to their bankers not to make a handsome deposit, but to arrange loans big enough to allow them to move into their prize—a new six-room house with a small garden.

And although the houses will cost the winners an average of \$485,000 each, every one of those winners is most likely to judge himself lucky indeed to win the right to buy, because skyrocketing land prices in Japan, and the Tokyo area in particular, have put home ownership beyond the hopes of many Japanese.

Real estate agents say the prizes, located about 90 minutes from the office for central-city workers, would be worth at least \$735,000 on the open market, and the housing corporation has indicated that it has no plans to build new single-family developments in the foreseeable future.

Thus, one particular home attracted more than 500 offers from frustrated house hunters.

For the more than 3,000 who fail to get their dream home in the lottery, prospects of matching the winners' windfall are bleak.

In the fashionable Denenchofu district about 40 minutes from central Tokyo, homes as small as 100 square meters (1,076 square feet) on about 70 square meters of land are priced at more than \$2 million.

In less fashionable districts up to two hours from a central office, \$500,000 will barely buy a condominium apartment, and many Japanese in the Tokyo region are beginning to give up dreams of ever owning their own home.

In the year to July 1, residential land prices in the Tokyo area soared 93 percent, according to the National Land Agency, and prime commercial land in the central business district now costs

up to more than \$40,000 for a single square meter.

The payback period on a newly purchased office building can approach 150 years, some real estate sources say.

In central Tokyo, however, land prices are said to be stabilizing, albeit at ridiculously high levels. But now, outlying areas like Yokohama and Saitama, Chiba and Kanagawa prefectures, are experiencing increases of more than 60 percent in the past six months.

Government at all levels is finally beginning to take the price rises seriously and are forming committees and issuing "guidance" memos to bankers and loan companies, advising them to stop making speculative land loans.

But few real solutions have emerged from the turmoil, and although the new government of Prime Minister Noboru Takeshita has said that solving the real estate crisis is its top priority, few believe there will be any real changes soon.

Beyond the simple price problem are the prospective social changes likely to occur from the creation of an entire new class of landless Japanese within what is often touted as one of the world's most homogeneous societies.

Already, some aspects of those changes are becoming clear, however. Society is quickly turning into groups with land and those without.

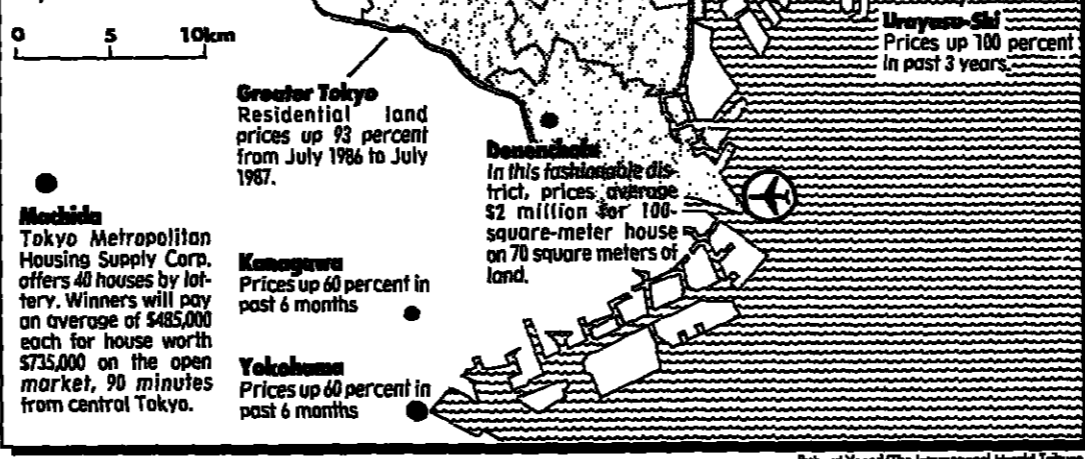
The landowners, supported by soft bank loans gained using real estate as collateral, are becoming richer and richer as they plow loaned money into stock markets, long-term savings certificates, which pay far more interest for large depositors than for small depositors, and into foreign land.

Realtors in Hawaii, Australia, the U.S. West Coast and in Canada are finding Japanese with suitcases full of cash ready to buy almost anything and ready to drive local housing prices up to the point where ordinary citizens in other countries are no longer able to participate in the market.

In Australia, the government has already taken measures to prevent non-immigrants from buying prime residen-

Tokyo Land Prices: A Dizzying Climb

Arresting the skyrocketing rise of Tokyo land prices is a key element in the unfinished political agenda inherited by the new prime minister, Noboru Takeshita. For Tokyo workers, the property boom has put the affordable "20-million-yen dream home" at least two and a half hours from the center city.



tial land — many say because of the Japanese who were arriving on vacation and snapping up condominiums and homes priced far below the levels back home.

But for the Japanese homeowners who have not paid off a housing loan, taxes, rising in tandem with land prices, are squeezing their already loan-heavy income to the point that many are working simply to meet payments.

"In only three years, the value of my home has more than doubled, but the taxes are cutting into my income more heavily and even if I sold, I would have no place to go in Tokyo. Prices in other locations have risen just as much so I haven't really got ahead at all. In fact, it's now tougher to keep my head above water," said one owner of a yet-to-be-paid-for condo, an hour from his office.

For the desperate, banks are now offering "two generation" mortgages in which the eldest son or another heir is expected to assume payments after the owner retires.

But with Japanese families becoming ever more nuclear, the ability to guarantee that one's heirs will want, or be

able to continue, payments from the day they start working is waning.

And no one has looked at the family implications of a situation where land, worth perhaps billions of yen, is transferred to one son or daughter and not to another.

Traditionally, the eldest son in a Japanese family inherits the home and takes care of his parents, but now that his siblings have little chance of being able to set up their own households independently, family tensions could become increasingly strained.

For the landless, a new phenomenon is emerging.

Instead of saving for the purchase of a house, many have given up hope and are moving toward an outwardly affluent lifestyle, including imported cars and overseas vacations, while living in rented two- and three-room "rabbit hutches."

But for many, rents are hardly less crippling than borrowing to buy.

A 50-square-meter apartment, far removed from the central city, can rent for well above \$1,000 a month, and a centrally located unit of 100 square

meters will easily run beyond \$5,000 a month.

With the average salary of a company employee in the \$37,000 range by middle age, only a dramatic change in land prices is going to help to increase the chances of having a small house to call one's own — or even a decent apartment to rent.

And even simply giving up hope, buying a "baby Benz" with the money one would have spent on a down payment for a house or condo and going to Hawaii on vacation, does not necessarily get the renter out of the land-price spiral.

Japanese law gives renters full right of tenancy, but with land prices skyrocketing, many landowners see selling off property to big developers as the way to move from middle-middle class to rich, and they can try to sell their property out from under their tenants.

But tenants, faced only with higher rents further from their offices, refuse to leave and then the *jiageya* step in to make life miserable — and dangerous in some cases.

Jiageya, often loosely translated as

"land sharks," specialize in assembling small land parcels for sale as packages to developers, and they often terrorize tenants and small landowners who refuse to sell for redevelopment.

Tactics to force people out range from midnight telephone calls, all-night parties in rented premises nearby and verbal abuse, to chopping holes in roofs, driving dump trucks through fences and walls, arson and physical attacks.

The law is on the side of the tenants and small landowners, but in practice, the harassment often overpowers the authorities and people decide to move.

This only compounds the land-price problems because the payments to the tenants to move or to the landowners to sell are often substantial and Japanese tax law severely punishes individuals who do not quickly reinvest their windfalls in land.

So, in the outlying areas, where a home used to cost about eight to 10 times the average salary of the average worker, displaced central city dwellers with wads of cash become willing to pay exorbitant prices for overvalued land simply to avoid the taxman.

The resulting inflation of marginal land prices means that the "salaryman" lucky enough to get a loan and brave enough to shoulder a long-term mortgage has to move even farther from work to buy his piece of Japan.

Already, the "20 million yen home" (\$148,000) one hour from work" of most dreams is at least two and a half hours from central Tokyo and getting farther away everyday. And the government solutions so far proposed to solve the problem offer little hope to the present generation looking for a house.

One plan is to freeze prices in the Tokyo region, but a freeze on prices that are already well beyond the ability of most to pay is hardly a solution.

Another program calls for holding government-owned, but underutilized, land from the public market to dampen speculation, but the logic of creating disinflation from lowering supply in a demand spiral is somewhat "confused," critics say.

Raising taxes on underused urban "farmland" could increase supply as could increasing "land-holding" taxes, but for the owner now saddled with huge mortgages, higher taxes could simply force the less affluent into the landless category, others argue.

Moreover, drastic moves to drive prices down to reasonable levels carry the fear of creating a disinflation so crippling that corporate and personal bankruptcies will proliferate because of the heavy borrowing done on current land holdings.

Seisuke Okuno, director-general of the National Land Agency, says the solution must be to create a "multipolar" country where the current concentration of economic and human re-

sources in Tokyo is halted and decentralization is forced upon the economy.

But even within the government, bureaucrats who roundly applaud the idea of moving some departments and ministries to other cities and regions fight tenaciously to make sure their own department or ministry is not among the ones moved into the *inaka*, or countryside.

One proposal from Mr. Okuno's agency calls for "capital splitting," in which Sendai to the north would become a "second capital"; Nagoya to the southwest would become the "industrial" center; and Osaka-Kyoto, even farther west, would become the "cultural" center.

Within moments of the plan's release, however, Sendai let it be known it was unenthusiastic about becoming a second capital, and Nagoya and Osaka-Kyoto rejected the plan because they do not want to be limited to any particular kinds of development.

And with the prime minister's official residence being rebuilt in Tokyo, the likelihood of any serious movement of any government offices or departments away from the seat of power remains a dream, critics say.

Mr. Okuno, in a recent interview, said the agency's decentralization plan is still alive, but the hard political decisions required to transform the Tokyo area, with its population of 28 million, into a much smaller capital region seem unlikely to be taken under the untried Takeshita administration.

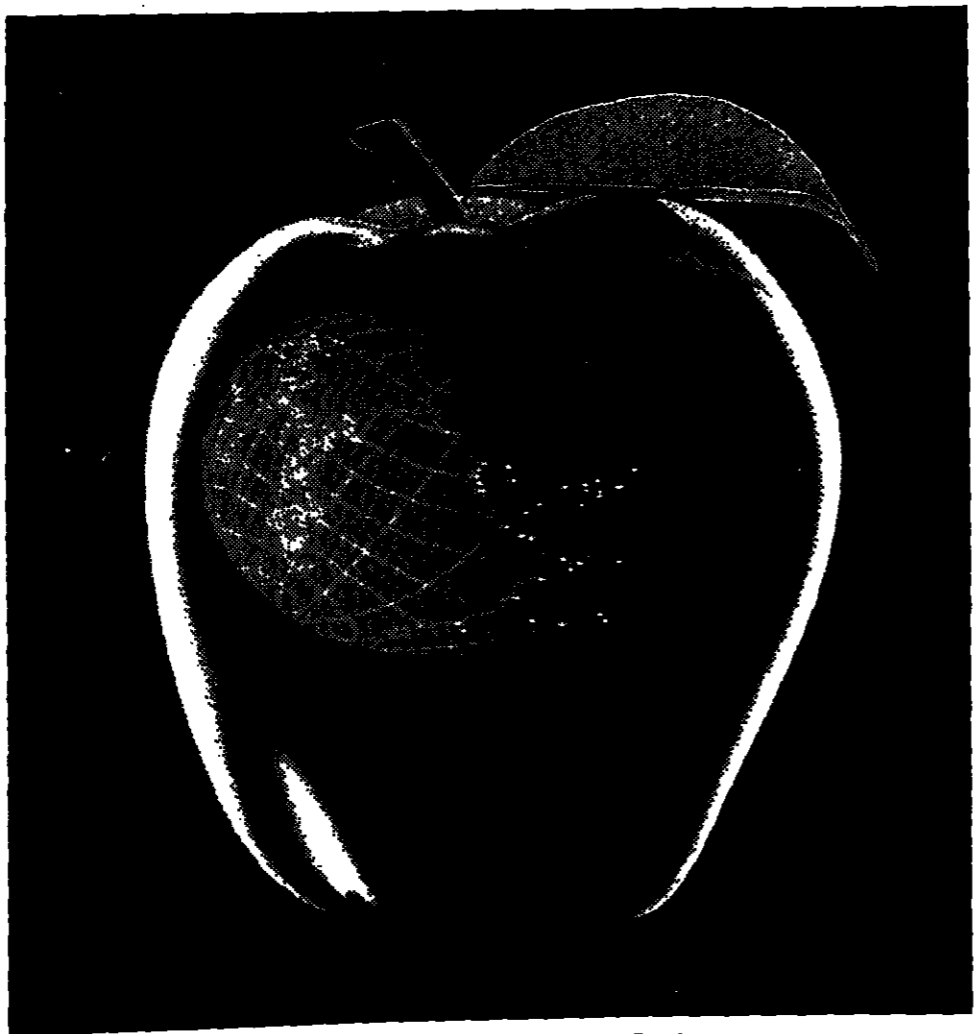
The new prime minister prides himself on his ability to seek compromise and obtain consensus, hardly the sort of leadership style required to step on vested interest and force through sweeping changes in the way wealth is currently formed in Japan: owning land, preferably in Tokyo, and then building from that base to buy more land, to buy out industries and establish companies on bank loans made on the strength of ever-rising land prices.

And so, the lucky 40 who will be moving into their \$485,000 homes in the New Year holidays really do look to be lottery winners — even in the traditional sense, because unless the land-price spiral suddenly and inexplicably loses momentum, their houses and land are likely to be worth twice as much in a very few years.

Then they will be able to sell to someone else, move to Hawaii and retire in luxury.

And without an end to the price spiral, that scenario may just replace the "20-million-yen-home-an-hour-from-work" dream of ordinary Japanese in a short time.

DARRYL GIBSON reports for The Canadian Press from Tokyo.



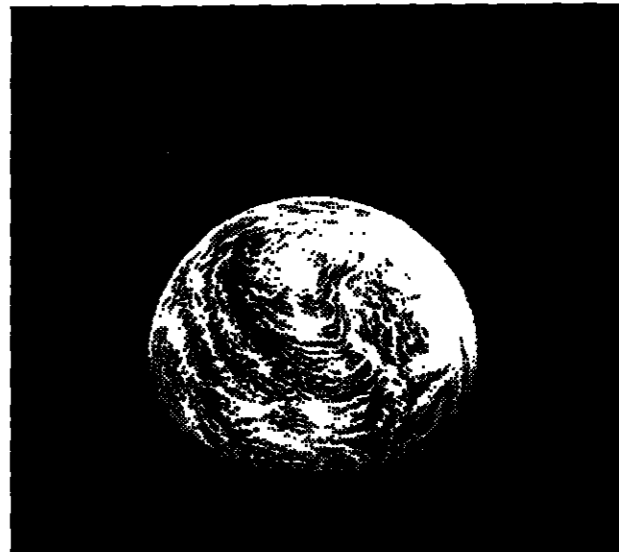
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Crash Bares Vulnerability of Tokyo Exchange

By Takeshi Sato

TOKYO — Japan's stock market is expected to develop a cautious upturn in the coming weeks, as the feeling grows among investors that gyrations in world stock exchanges since Black Monday represented an overdue adjustment to correct their exceedingly high levels built up in the past year or so.

At the same time, the Monday, Oct. 19, crash on the New York Stock Exchange showed that the Tokyo Stock Exchange cannot escape the chain reactions rippling through world financial markets, however strong the Japanese economy may appear.

The agreement to reduce the budget reached by the Reagan administration and Congress gave some support to the Japanese market, but turnover remained limited to a level about one-third of the average trading volume earlier this year.

Many investors, both individual and institutional, remained on the sidelines, awaiting further developments in the U.S.-Soviet talks on the Intermediate Nuclear Forces treaty. They also wanted to see what would be the approach of international monetary authorities, especially concerning cooperation among the Group of Seven leading industrial nations.

Market sources say that both major institutional investors, such as life insurers, and investment trusts have a large cash position, representing nearly 40 percent of their assets as a result of previous selling. But these investors are said to be showing extreme caution in using their liquidity, because many of them suffered significant losses in their portfolio holdings.

"So far, it is all right, because the present price level is still somewhat higher than at the beginning of this year," a fund manager of an institutional investor said. "However, we cannot run a big new risk by investing our money at this stage."

A spokesman for Daiwa Securities said the

cash would be invested in stocks when the principal factors in the market — such as the yen-dollar exchange rate, ways of implementing the U.S. budget reduction pact and the U.S.-Soviet arms talks — had been clarified. "It would be difficult to increase investment in U.S. government bonds or Japanese govern-

ment bonds or the interbank market substantially," he said. But he added that a quick recovery to the August level of the Nikkei stock average was unlikely, because the market had learned a lesson from Black Monday that was totally unexpected for most Japanese investors.

On Oct. 20, there was a rush of sell orders on the Tokyo Stock Exchange, including an estimated 1 trillion yen (\$7.14 billion) sold by foreign investors. Most of the orders could not be executed, as there were few buyers, but the prices were carried forward to the following day, when individual investors started large-scale bargain-hunting.

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The reasoning among Japanese investors was that since the national economy appeared to be heading for a substantial recovery through the government's efforts to expand home demand, Japanese stock prices must recover, as they had after previous setbacks.

Some individual investors are believed to have bought heavily on margin trading there-

investors who had shifted their investment from stocks and mutual funds to Treasury bonds and the money market would return to the stock market, to push the Dow Jones industrial average up to around 2,200.

Japanese stock prices, he said, would recover in two stages, the first by early in the new year and the second by March. The market peaked this summer at more than 26,000 on the 225-stock Nikkei average.

He said, however, that "foreign investors, who some people fear might sell Japanese stocks again if the yen started to rise further, will eventually return to Tokyo, if only to correct their oversold position. But it will take some time, so that the U.S. government's fiscal deficit-cutting policy will be important for the Tokyo stock market."

Japanese institutional investors, who have had heavy losses from their previous investment in U.S. Treasury bonds, are likely to restrain investment in this area, and the flow of dollars from Japan to the United States will

shift to exchange-market intervention by the Bank of Japan, which will invest dollars bought through intervention in U.S. Treasury bonds, he said.

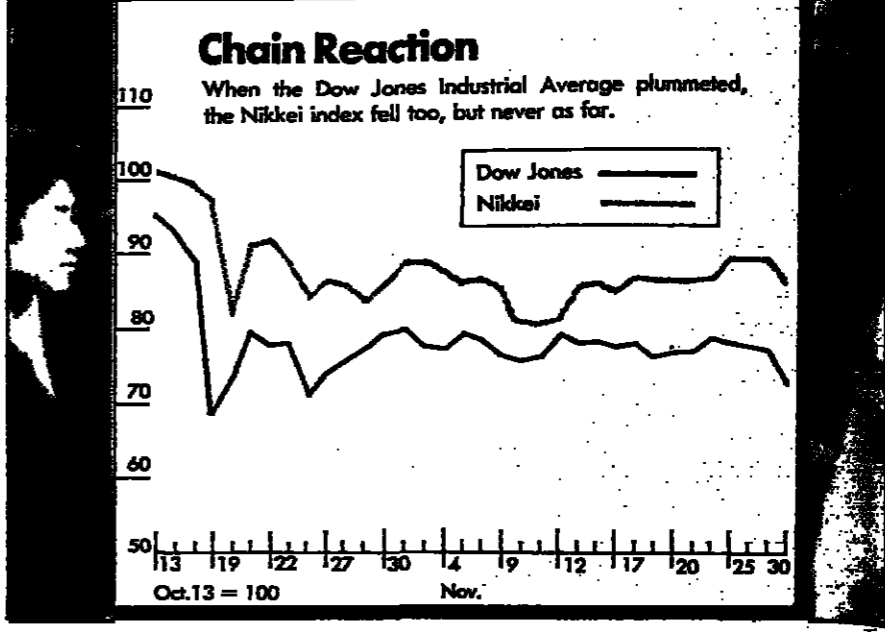
Banking sources said foreign investors would not be able to stay out of Tokyo for long, because Tokyo now accounts for around one-third of stock trading the world over. As of mid-April, Tokyo overtook New York in total market value, reaching nearly \$2.8 trillion. The decline in the Nikkei stock average as a result of the big crash was about 17 percent, compared with 23 percent in New York.

The Tokyo Stock Exchange and leading Japanese securities houses plan to expand their computerization networks both for accelerated documentation and closer contact between securities houses and their clients using personal computers. Both the stock exchange and the Federation of Bankers' Associations in Japan have plans to expand or introduce financial futures trading in cooperation with some futures markets overseas.

JAPANESE investors are also closely watching the monetary policy of the Bank of Japan in regard to the preliminary negotiations for a new G-7 meeting. They point to the possibility that the United States might want Japan to lower short-term interest rates in exchange for cutting the U.S. budget deficit.

The Bank of Japan changed its stance following Black Monday to guide interest rates lower but has said repeatedly that this was an emergency measure, stressing that the money supply continues at more than 11 percent above a year ago and might rise further through foreign exchange market intervention and the recent decision to allow placing of domestic commercial paper.

TAKESHI SATO is a free-lance journalist and a former financial reporter for the Tokyo bureau of Reuters.



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Investments

Market Movements Linked to Power Of Investment Yen

Special to the IHT

TOKYO — The London stock market moved toward its record high this summer simply because Japanese investors were expected to start pouring money into the market following Prime Minister Margaret Thatcher's convincing election victory. They did not, and the market fell back.

The episode was a perfect example of the overwhelming importance that Japanese investors have in world markets today. Where they hold their money and where they intend to hold it have become the two questions that other market investors and analysts ask themselves first before predicting a market's performance.

It has become an accepted fact that Japanese money is the single biggest investment money pool in the world. Such is the influence it wields that, as in London's case, the position that Japanese investors take over any market can become a self-fulfilling prophecy.

The cry in the dealing room that the Japanese are there can quickly add several points to a bond or equity market.

In fact, the power of the investment yen has become so great that markets are in danger of becoming hypnotized by it. They would do well to look more closely at the history of Japanese investment planning and consider whether future strategy will be the same. It may not.

The estimated \$11 trillion to \$12 trillion held as financial assets by Japanese financial institutions, corporations and individuals is certainly a huge amount. But there is a significant reason why, until now, that money has had more influence in the world than it has merited: Japanese investors have followed a crowd mentality, and where one invests, all invest.

The classic example has been the U.S. Treasury market. Until the latest Treasury quarterly refunding at the beginning of November, Japanese investors were by far the biggest buyers of U.S. government debt, purchasing regularly as much as 50 percent of any offering. The standard view was that the Japanese trade surplus fed the U.S. budget deficit was in this respect true.

The Japanese government is enthusiastic that Japanese wealth should be recycled overseas in the interests of world economic equilibrium. Finance Ministry guidance has so far ensured that this recycling has occurred reasonably smoothly. A worrying drop in Japanese capital outflows near the beginning of this year drew serious official concern at home. Outflows have, by the way, started to decline again, following the latest round of currency instability, which makes any investment risky until rates stabilize to some extent.

Such crowd-like behavior, coupled with apparent obedience to Finance Ministry dictates, has led many foreign observers to underestimate the independence of the Japanese investor.

tory to the average Japanese investor.

Moreover, despite the apparent contradictory evidence supplied by their own free-wheeling, highly speculative and highly manipulated home markets, the Japanese investor abroad is the height of conservatism and prudence. Stable, long-term yields are his criteria of a solid investment. It does not take much, therefore, to see how U.S. government paper became the focus of Japanese overseas investment.

U.S. stocks were the next familiar objective. To many Japanese portfolio diversification still means switching from U.S. bonds to U.S. stocks.

Without these factors, it is difficult to understand just how Japan's major institutions could have accepted three severe reverses in their U.S. investments over the past two years. The Japanese have lost billions of dollars — first when the dollar declined from September 1985 on, then when it fell again after a false period of stabilization, and most recently when Wall Street collapsed and the dollar declined further.

BUT the Japanese are no longer willing to take such abuse. Figures published by the Japan Securities Dealer Association show that Japanese investment abroad is growing and diversifying rapidly. Nomura Securities, the world's biggest investment firm and the flagship of Japanese investment, is making markets in Canadian and, more importantly, in British stocks. To the dollar-bound Japanese investment community this is a significant move. The big Japanese securities houses are also starting to make markets in alternative currency bonds, especially British gilts, and they are eager to get at the West German bond market.

All the main Japanese financial institutions are reducing their dollar portfolios as a proportion of their total investments. Fund managers say they are restricted largely by two things — first, by a lack of experienced staff in other markets, and second, by the endemic conservatism of board members who trust no market but the Japanese market and otherwise see no link with the outside world, save the one across the Pacific. They are dying out.

The Japanese have become unusually aggressive about dollar investments since the Wall Street disaster, and they demand that Washington tackle its deficit. Some portfolio managers threaten to buy no more dollar assets until it does so. That would be dangerous, because although the United States is capable of funding its own deficit, as the success of the November refunding showed, any major Japanese investor rebellion against the United States would cut the world's biggest creditor off from the world's biggest debtor.

There is also a strong tendency for the Japanese to retreat into their own markets when overseas investments turn rough. They are by no means the only ones to do this, as the foreign rush out of Japanese equities over the last few weeks has shown. However, the essential need to recycle Japan's trade surplus funds makes such a prospect unacceptable.

Handwritten text in Arabic script: "مكتبة النور"

High-Tech Priorities Shift to Basic Research

By Roy Garner

TOKYO — When Professor Susumu Tonegawa, 48, recently became the first Japanese to win the Nobel Prize for medicine, national self-congratulation might have seemed in order. However, the circumstances of the professor's achievement have prompted new soul-searching among those planning Japan's strategies for high-tech development.

The snag lay in Professor Tonegawa's forceful reminders that all of his pioneering research, which revealed how the body constantly changes its genes to produce antibodies, was undertaken outside Japan, at the Basel Institute for Immunology in Switzerland and at the Massachusetts Institute of Technology, which now serves as his base. Furthermore, he plainly asserted that he would have been unable to carry out this research if he had not long ago moved out of Japan, where the research environment is, in his words, stifled by concerns over seniority and consensus.

The "Tonegawa shock" has served as a painful reminder to the Japanese that while the nation has prospered up to now largely through the recycling and re-application of imported technologies, the top priority in future must be the provision of the conditions necessary to nurture basic research excellence.

The Japanese have found some encouragement in recent technology trade statistics, which suggest that the nation may soon become a net technology exporter, but the real picture here is not so promising. Statistics compiled by the Management and Coordination Agency show that technology exports reached 234.2 billion yen in fiscal 1985 (ended March 1986), a fourfold increase since 1975. Imports were only slightly higher at 293.2 billion yen.

However, there is a major difference between the quality of the technology exported and that imported. Much of Japan's technology exports are of low-technology goods, such as plant equipment, to the newly industrialized countries, while imports are predominantly from the United States and center on computer software and sophisticated electronics.

Seeking an improved emphasis on research, the government has introduced a wide range of generous tax incentives, including a stipulation that small and medium-sized firms can deduct up to 6 percent of their research and development spending from their taxes.

Japan has also budgeted a total of 158.9 billion yen in 1987 toward eight major government-funded research and development programs, which include the fifth-generation computer, energy conservation technology and uranium enrichment projects.

Within the universities, where more than 60 percent of basic research is carried out, according to government statistics, the Ministry of Education's University Council is considering increases in the number of its research grants, improved hiring systems whereby research assistants may choose between temporary or life-

The 'Tonegawa shock' has served as a painful reminder to the Japanese.



Susumu Tonegawa.

time employment, and revisions in the university entrance examinations to place the stress on creative, rather than rote-learning, skills.

But the Japanese government's growing commitment to basic research is perhaps best shown in its Exploratory Research for Advanced Technology (ERATO) and Japan Key Technology Center (Japan Key-Tech) programs. The ERATO program, administered by the government Research Development Corporation of Japan (JRDC), consists of nine small projects designed to promote fundamental research into the basic nature of life and the evolution of organic matter.

Unlike most previous Japanese research efforts, there is little pressure for the research to lead to commercial applications. The research team leaders, all top specialists in their fields, retain complete control of their programs. Each ERATO project team consists of 20 to 30 members, none over 35 years of age, lent by their parent companies for the duration of the project. Areas already under study include the nature of the component parts of fine polymers; micro-organisms with special genetic properties ("super bugs") and the chemical value of solid surfaces.

The "perfect crystal" project, examining crystalline structures, has already achieved important results, including the test fabrication of a 32-bit linear photo sensor that claims to offer improvements over conventional charged-couple devices (CCDs).

Similarly ambitious is the government's Japan Key-Tech program, intended to encourage new joint-venture research projects. Started in 1985, Key-Tech is funded by dividends from the government-held stock of Nippon Telephone and Telegraph (NTT) and the Japan tobacco industry. As these are now "private companies" — they are both in transition stages in the move from public to private — the direct government funding amounts to only 25 percent of the total under the policy of encouraging corporate sponsorship of important research and development efforts.

Research projects under way include those centered on automatic telephone translation systems and advanced optical fiber data transmission.

To improve their basic research, the Japanese realize that fundamental structural

changes must somehow be introduced. At present, total research spending in Japan equals 2.77 percent of gross national product (slightly more than in the United States), but only 13 percent of this sum goes toward basic research (well below U.S. and West European levels) and an improvement in this ratio is now sought.

Another candidate for change is Japan's Science and Technology Agency, which plays a key role in formulating science policy. The agency director has been changed 45 times in 31 years, mirroring political developments, and a more stable administrative structure is now being called for.

But despite its anxieties over the promotion of basic research, Japan has much on its side. The nation's industries have almost universally accepted the notion that high technology is their future lifeline, big business is showing an increased readiness to fund long-term research work and a growing internationalization of research projects has provided valuable insights into how Western countries organize their basic research efforts.

In addition, Japan is dominant in certain critical technologies, notably semiconductors, fiber optics and robotics and is well placed as regards the great technology race of the moment, superconductors.

Japanese firms are already outlining some of their planned applications of superconductor technology, which include such items as a "linear catapult," which will accelerate a rocket along a 3-kilometer (1.86-mile) horizontal track before it blasts upward into space, and a high-speed nonpropeller oceangoing vessel that is driven solely by superconductive electromagnetic propulsion.

The "Tonegawa shock" has presented Japan with a timely warning of its key area of technological weakness. It only remains to be seen whether the nation can overcome this impasse with the same panache it displayed following the wartime ruin and the oil shocks of the past.

ROY GARNER is the Tokyo-based correspondent for Independent Radio News of London.

Software Projects to Ease Shortfall

TOKYO — In virtually every field of high-tech research, computer software nowadays plays a critical role. And the closer toward the basic end of research one moves, the more complex and abstract are the problem-solving requirements involved — and, in turn, the greater is the need for innovative software tools.

With this in mind, it is easy to understand the level of concern aroused by recent estimates by the Ministry of International Trade and Industry (MITI) that Japan will suffer a shortfall of approximately 600,000 software specialists by 1990.

In response to what is increasingly perceived as a software crisis in the nation, Japan has embarked upon two radical software-related development projects. These are SIGMA (software industrialized generator and maintenance aides system) and TRON (the real-time operating system nucleus).

SIGMA's aim is to improve the efficiency of the actual process of software production, partly by the development of "software-writing software," and TRON aims at the development of a home-grown microprocessor that would facilitate the introduction of a standardized form of computer architecture. Moreover, it will be designed to meet the specific requirements of today's users, overcome many of the difficulties currently caused by incompatibility between different makes and models of personal computer and reduce the computer industry's dependence on IBM architectures.

SIGMA is a five-year, \$195 million program, half-financed from government sources via the MITI-affiliated Information Technology Promotion Agency (IPA) and half-sponsored by more than 150 private firms. It is hoped the project will greatly simplify the business of software writing by standardizing the tasks involved, thus cutting out the duplications of effort among software specialists within different industries.

The project began in 1985, and by 1990 its backers hope to produce a library of core material that can readily be accessed throughout Japan using any UNIX-system-based computer. (Analysts believe the adoption of the AT&T-developed UNIX System V architecture heightens the project's status as a challenge to IBM supremacy.)

SIGMA is heavily focused on the actual needs — and the installed software — of end users, and in this sense is more of a "catch-up" effort than an academic quest. Researchers are developing libraries of software "modules" that can be used as the building blocks for new application programs. In practice, users will work on high-capacity "work station" personal computers, connected to a network that will allow access to an extensive library of software tools.

A user in the "new materials" industry, for example, might pay a license fee for the use of an outside firm's program that monitors a certain material's response to temperature changes. This basic program might be further supplemented by standard design modules available in the common software banks.



Salvaging parts at a computer graveyard.

will go some way at least toward reducing the hardships involved in software development.

Kiyooki Tamura, development labs director of Japan's second largest software developer, Nippon Business Consultant (NBC), commented: "No one knows whether it will work out. It is quite a switch from IBM to UNIX-oriented architecture, a great change. But Japan's software houses are very confused over the different manufacturers' strategies concerning operating system interfaces, so they are interested by any means to get a common software interface environment."

Mr. Tamura's remarks have equal relevance as applied to the TRON project, which is also centrally concerned with equipment standardization. TRON is the brainchild of one Ken Sakamura, a 35-year-old computer architect and Tokyo University professor.

His vision of an industrywide standard for computing was first publicized in 1984. Already, more than 40 Japanese companies have opted to become involved in the TRON initiative, contributing at least 10 billion yen to the project. Mr. Sakamura's plan is to make a complete break with the past tendencies of Japanese computer makers merely to seek compatibility with U.S.-developed operating systems and microprocessor technologies.

Japanese corporate sponsors were prodded further toward accepting this daring departure from tradition when two U.S. firms, Intel and Motorola, announced that they were not going

to license their latest 32-bit processors to their traditional second-source firms in Japan, Fujitsu and Hitachi. As a result, the two Japanese firms became committed to the development of a 32-bit TRON microprocessor, alongside other top electronics equipment producers.

Each of the companies involved has agreed to accept responsibility for a different implementation of the chip. Fujitsu, for example, is working on applications in business work stations and minicomputers; Hitachi is specializing in engineering work stations, and Mitsubishi Electric will handle applications in control equipment.

A remarkable feature of the TRON architecture is that it is not being protected as a proprietary design but, instead, is being made openly available to anyone who pays the research group membership fee of 500,000 yen. Equipment manufacturers are trusting that this free availability of the new architecture — and the careful tailoring of TRON to ensure that it is capable of handling the complex Japanese language — could finally pave the way for "popular" personal computing in Japan, where up to now the "keyboard barrier" has stilled the growth of a home-use market.

If Mr. Sakamura's vision is fulfilled, TRON will not only ease Japan's immediate software crisis but could also place Japan in the league of those who set international computing standards.

Roy Garner

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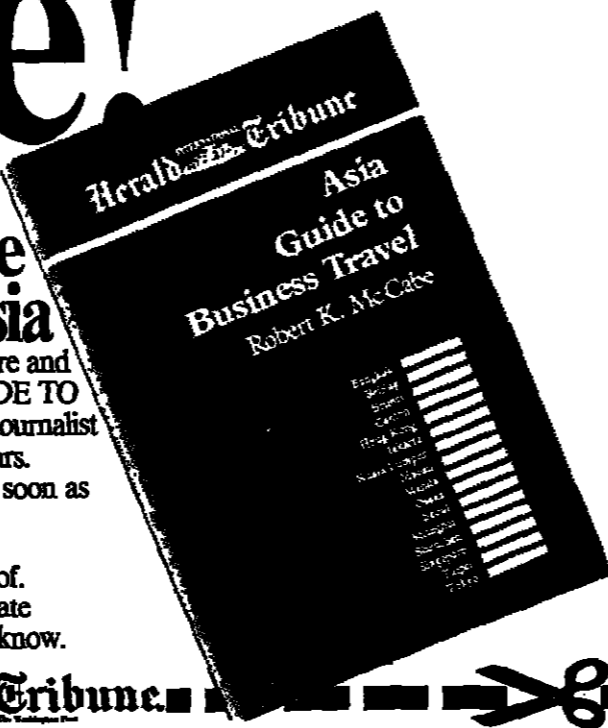
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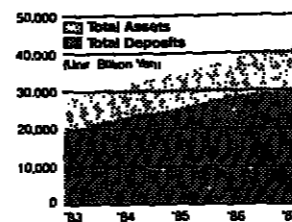
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Cashing In on Culture ■ The Fitness Boom

As Dollar Falls, the Yen for Western Art Grows

By Donald Richie

TOKYO—When the Yasuda Fire and Marine Insurance Co. paid \$39.85 million for a van Gogh last March, at that time the largest amount ever paid for a painting, it became apparent that cultural consumption in Japan had reached a new high.

Not that it had ever been low. Japan has long been consumed by culture, both its own and that of other countries. From the days of the woodblock print and the prizey tea-bowl to the Lautrec poster and the Fabergé box, culture—particularly Western painting—has enjoyed a popular prestige rarely elsewhere.

This ready audience has, now that the dollar is down and the yen is up, created an enormous new market for Western art. Last year, Japanese dealers, curators and collectors imported \$400 million worth—twice 1985's figure, and this year the total is expected to be half again as much.

A Tokyo art dealer explained that with so much ready money now in Japan, real estate, stocks and bonds are all saturated and the excess is pouring into the art market. And one of the big department-store galleries reported that real-estate brokers rich from high land prices come in and say they want a "good" painting for 20 million yen (about \$150,000) and that they want it right now.

What they want are the Impressionists. These share a style popular in Japan (after all, Impressionism was in part created by early French familiarity with Japanese art), and they have an unlimited value. As consumer items, they are ideal. Perhaps consequently, as a Ginza gallery owner said, Japan must be the world's largest repository of second-rate Renoirs.

Indeed, buying as they do, with much enthusiasm and, until recently, little expertise, Japanese collections are, it is said, laced with fakes. As another dealer put it, Corot painted 637 pictures, 985 of which are in Japanese collections.

For those who cannot afford to buy Western paintings, there are endless opportunities to view them. This autumn, a department store, the Shinjuku Isetan, mounted two major foreign shows: a Whistler exhibition, exclusively organized for Japan from European and American holdings, and a Matisse show, mainly from a Nice museum collection. Both shows were heavily attended.

That a department store should hold major exhibitions (and they all do) is indicative of the

Hockney," overseen by the Victoria and Albert Museum in London; the Tokyo Teien is holding a 60-piece Bourdelle sculpture exhibition; the Kanagawa Modern Art Museum is showing an enormous Géricault collection; the Bridgestone is showing its Impressionists, including the Renoir that it recently bought from Wildenstein for \$10 million, and the Yasuda company's Seiji Togo Museum is showing its van Gogh "Sunflowers."

The \$39.85 million for "Sunflowers" was the

When it came to Japan, it was seen by so many that it was locally nicknamed the "Venus de Miyayo," or the "Venus I've Already Seen."

In the same way, Beethoven's Ninth Symphony is judged the "best" piece of Western music and its performance has become a Japanese ritual.

This attitude puts limits on what is presented. Visiting foreign orchestras have their programs dictated to them: no Elliot Carter, more Beethoven symphonies. Ballet is the same. When the Harlem Dance Theater played in Japan, its sleek "Agon" was not allowed and its clunky "Scherzade" was insisted upon because it was a "classic" and hence presumably "best."

Thus, the same "masterpieces" are seen and heard over and over again. The semi-governmental radio/TV network, NHK, has numerous FM radio programs but all seem built around the "100 Best Classics." Local government subsidies are withheld from ballet companies making provincial tours unless they do "Swan Lake," though "Giselle" has been known to work in a pinch. And the museums buy and show Renoir and van Gogh, locally thought the "best" of the moderns.

Still, taste is widening. The "Space in European Art" show was an eye-opener for many, the San Francisco Orchestra is being allowed to play Roy Harris' Third Symphony in Tokyo, and the cultural event of the fall is Japan's first big bite of the complete "Der Ring des Nibelungen." All the sets, costumes, singers and orchestra of West Berlin's Deutsche Oper were brought here for performance of three complete cycles of the four operas, and the tickets (\$1,000 a seat for the set) are sold out.

Japan's culture-buying binge, the consumption of art on the highest economic level, continues.

DONALD RICHIE, who lives in Tokyo, writes widely on the Japanese cultural scene. His most recent book is "Different People: Pictures of Some Japanese."

With so much ready cash, real estate, stocks and bonds are saturated. The excess is pouring into the art market.

popular level of art appreciation in Japan. With the backing of a newspaper and/or a TV network, the stores hold art shows in their extended galleries. The store gets the clientele, the newspaper gets the cultural reputation and television gets the coverage. This year again, the shows (Leonardo da Vinci drawings, Mondrian paintings, the Vatican treasures, for example) drew large crowds.

In addition, Japan's many museums host shows from abroad. The finest was the "Space in European Art" exhibition organized last spring by the National Museum of Western Art, the Yomiuri Shimbun, the Nippon Television Network and the Council of Europe. It contained, among much else, the van Eyck "Annunciation" from Lugano; the Mantegna "Dead Christ" from Milan's Pinacoteca; Titian's "Venus" from the Prado; Caravaggio's "Cupid" from the Pitti; and a Vermeer from Washington's National Gallery.

This same museum is currently offering an exhibition of caricatures. "From Hogarth to

most paid for a painting until van Gogh's "Lisies" was sold nine months later to an unidentified bidder in Europe for \$53.9 million.

The current plunge into art is not merely for investment. (Indeed, the art market falls when compared with Japanese investment in American real estate.)

There has been a proliferation of newly funded art museums all over the country. And all are buying. Tokushima, in backward Shikoku, recently bought a very expensive Picasso to go with its \$900,000 Henry Moore sculpture, and Nagoya recently paid \$1.545 million for a Modigliani.

It is the names that are bought, but not only because names are good investments. Names are seen to have high educational value. Thus, it is commonly agreed that the "Mona Lisa" is the "best" Western painting. When it was brought to Japan after protracted French-Japanese negotiations in 1974, it was seen by tens of millions of people. Similarly, the "Venus de Milo" is considered the "best" sculpture.



The sum paid for van Gogh's "Sunflowers" set an all-time high.

Business Is Brisk at Fashionable Sports Clubs

By Christine Chapman

TOKYO—The ladies in the sauna at the Golden Spa try to be discreet about their gossip, for the competition may be listening.

The Golden Spa in Tokyo's handsome New Otani Hotel is the most exclusive health club in town, a private enclave where middle-aged company presidents predominate. There they gather to swim, play tennis, drink.

On a recent Saturday afternoon there were more members drinking in the club's elegant French restaurant than there were on the roof practicing golf strokes. Their wives and girlfriends stretching out in the sauna whispered softly to each other, for Golden Spa members represent big business and idle chatter about

company secrets adds to the stress they want to escape.

"Our members are famous people," said a spokesman for the Golden Spa, who asked to remain anonymous. "They are presidents of companies, members of the Diet, bankers, doctors, owners of fashion houses and newspapers. I can't name them or their business because this is a private club. We have 2,500 members, 1,000 of them are women. Most are in their 40s and 50s, some in the 60s. We don't accept new members and we don't have a waiting list. To belong, someone must inherit membership."

Across town from the Golden Spa, sitting beside the Takadanobaba train station, is the Big Box, literally a huge box-shaped building that houses the Seibu Sports Plaza and dozens of boutiques and restaurants. Opened in 1974, the same year as the Golden Spa, the Big Box

catered to a different clientele, the middle of the middle class whose junior businessmen, teachers, shopowners, clerks, retired people, housewives and children swim and exercise in the extensive facilities.

The Big Box is less expensive and more democratic. The initial membership fee to use all the facilities at the Golden Spa is 2.3 million yen (\$18,520), excluding the deposit and monthly payments. The Big Box charges a one-time fee of 50,000 yen, or about \$370, and 7,000 yen a month, or \$52. (Prices are figured at the rate of 135 yen to the dollar.) In the Big Box's olympic-sized pool, foreigners can join Japanese in the swim, for use of the pool alone costs less than a full membership, 10,000 yen a year, or \$75.

A Big Box spokesman, Toshio Matsui, would not say how many members the sports

club has but acknowledged that it accepts new members. "We don't care about famous people here," he added. "Most members arrive by train or subway, not by car."

The suburban Seibu railroad line, which owns the Big Box, drops hundreds of customers off at its doorstep daily. The Golden Spa, set within the hotel's oasis and owned jointly by the New Otani Hotel, the Takashimaya Department Stores, a medical clinic and a Japanese bank, requires a car or a cab to reach conveniently.

From the expensive extremes of the Golden Spa to the popular-priced Big Box, sports clubs are proliferating in Japan. It is not only the young who want to "do sports," but their parents and grandparents have also signed up for the fitness boom. They belong to the generations that have the extra money to spend on pleasures.

Health and fitness as a fashionable, growing business is one direction Japan is taking as it turns toward a service economy. Elaborate private resorts, and others developed with public funds, are being built in underpopulated areas of Hokkaido in the north and Okinawa in the south to lure traveling Japanese away from foreign slopes and shores.

In its issue of Oct. 12, Business Week's international edition reported that Japan's leisure market will double from \$352 billion spent in 1985 to more than \$700 billion by the year 2000. In 1986, Japan's 621 sports and health clubs was double the number operating in 1984. By 1991, the clubs will double again to an estimated 1,200 and still maintain an exclusive image compared to the United States' reported 10,000.

The sports club business, which began here in the 1970s and reached a popular peak five or six years ago, has become part of the norm of city life. To play a sport is in fashion; to relax from office pressures is considered a necessity, whether one is the boss or the employee; to belong to the right club is a status symbol. Even junior executives whose companies take out corporate memberships can claim a certain status, at cut rates, for doing sports at a club with the company card.

Incorporating regular exercise into the workday schedule is a "new urban lifestyle" for city dwellers, according to Mariko Fujiwara, Japan's foremost trend-watcher.

Mrs. Fujiwara is a versatile professional woman whose business it is to recognize trends and help shape them. She is both the English-language editor of research and publications for the Hakuhodo Institute of Life and Living and the editor in chief of MediaInfo, a Japanese magazine she began for and about the



A jazz dance class at a Tokyo health spa.

media. She is also a lifetime member of the Sigma Sports Club, the Golden Spa's rival in attracting the movers and fixers of Japanese business, where she and her husband, a university professor, play racket ball.

"We first considered golf," said Mrs. Fujiwara. "But it was an expensive one-day-a-week affair and because it requires a caddy, not very democratic. We dismissed tennis since it's a younger, strenuous game that involves a lot of expensive gear. We chose racket ball because it's easier to get a court and, after 30 minutes, you look like a rag and have done enough exercise. Also, we can drive to Sigma from our house in 10 minutes."

Sigma, which opened in a residential district of Tokyo in 1983, was only a sports center and not a status symbol, said Mrs. Fujiwara, until former Prime Minister Yasuhiro Nakasone joined.

In the heyday of the "Ron-Yasu" relationship—the term the Japanese applied to the friendship of President Ronald Reagan and the prime minister—the 69-year-old Mr. Nakasone opted for his own healthy, youthful image. A member of the Golden Spa, where he swam, the prime minister and his entourage were such frequent guests that others in the pool, annoyed at being ousted when he was there, complained to the management. The prime minister resigned, giving his membership to his son, and joined Sigma, which absorbed him into its 1,900-member club.

"Longevity is the fact of life now," said Mrs. Fujiwara. "People want to feel better and keep up with the Satos." "Keeping Up With the Satos" was Mrs. Fujiwara's title for the Hakuhodo Institute's 1983 study on middle-class conformity.

What happens if the middle-class wants to conform but cannot afford the price of club membership? (Sigma has a graduated scale of fees depending on whether the member wants to play tennis. At its most expensive, it costs 1.5 million yen to join, more than \$11,000, a 2.5 million yen deposit, or \$18,520, 12,000 yen monthly, \$89, and 600 yen, \$4.45, for each visit.)

The answer lies in public gymnasiums and swimming pools. Most of Tokyo's 23 wards have recreation centers for people who live or work in the ward. The cost for using the indoor pool or exercise rooms is minimal, perhaps 200 or 300 yen, \$1.50 or \$2.25.

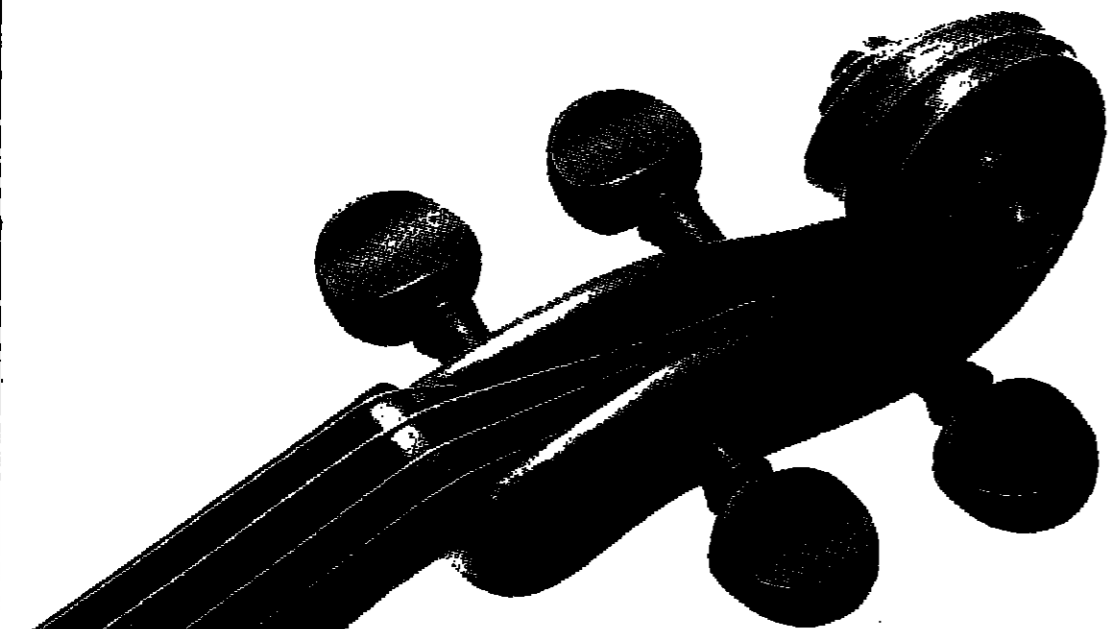
There is also the Leisure Development Center, a public corporation that is helping prefectural and local governments plan recreation sites and activities for citizens who do not know what to do with free time.

The center's senior director, Motoyuki Miyano, explained: "Japanese have a lot of free time these days as working hours are becoming fewer. However, leisure facilities are always crowded and expensive and the people have little information about where to go."

Began in 1972, the research center reports to the government on the leisure business and the recreation habits of Japanese. The center also helps plan recreation developments in various areas of the country where Japanese can stay for several days. Promoting fitness is part of the national policy as Japan wants its citizens to play at home.

CHRISTINE CHAPMAN, a journalist based in Tokyo, reports on education and cultural affairs.

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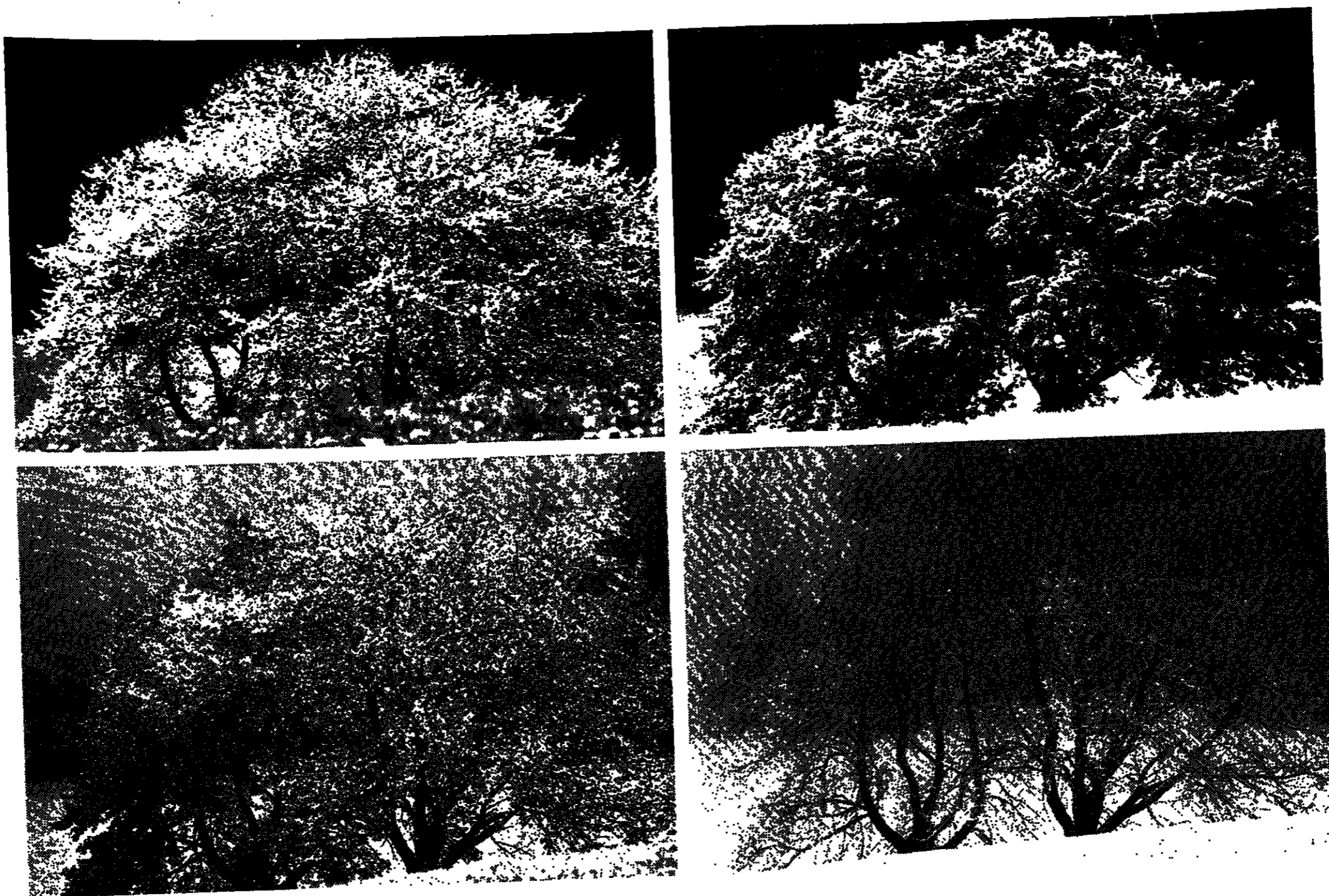
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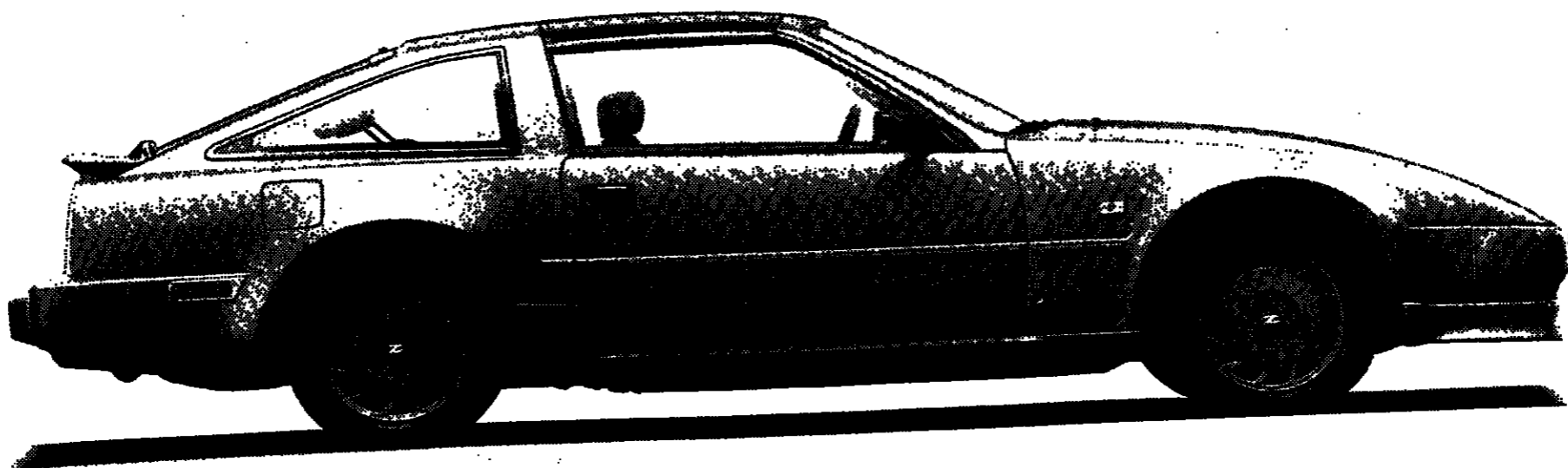
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MADISON AVENUE

Ad Spending May Resist A Possible Slump in 1990

By PHILIP H. DOUGHERTY

NEW YORK — If a recession does indeed develop by 1990, worldwide advertising probably will not be badly hurt, according to John Ferriss, worldwide media director of Britain's Saatchi & Saatchi.

Mr. Ferriss was on the lead-off panel of PaineWebber Inc.'s 15th annual Conference on the Outlook for the Media.

In 1973-75 and 1981-82 the economy declined but ad spending grew.

When a foreign-based advertising agency opens a branch in New York, it can't really be too hopeful of attracting local clients.

How about manufacturers from its own country with American branches? A little better chance, perhaps, but even they might feel more comfortable with an indigenous shop.

What it all comes down to is that foreign agencies have not had an easy time gaining a foothold on the slippery byways of Madison Avenue.

One such agency was Intermarco, established here in 1980 by Publicis of Paris, the largest agency in Europe.

THE BIG NEWS from the New York outpost is that the company's agencies are taking the name of their parent, Publicis. It is a name that now identifies the offices in 27 cities in 11 countries.

The name change was celebrated this week with a cocktail reception at the French Consulate given by Claude Marcus, the chairman of the parent company.

Hal Riney & Partners have resigned the E.&J. Gallo Winery account after seven years of award-winning work on its behalf.

Dan Solomon, Gallo's public-relations chief, said the Riney agency's tremendous growth had cut into the time that its executives could spend on the Gallo account.

James Travis, president of Riney, said this was not the reason the agency had resigned the Gallo account.

A former Gallo agency man, asking not to be quoted by name, said working for the Gallos was emotionally and physically wearing.

Dollar Not Enough to Aid U.S. Exports

Constraints At Home And Abroad

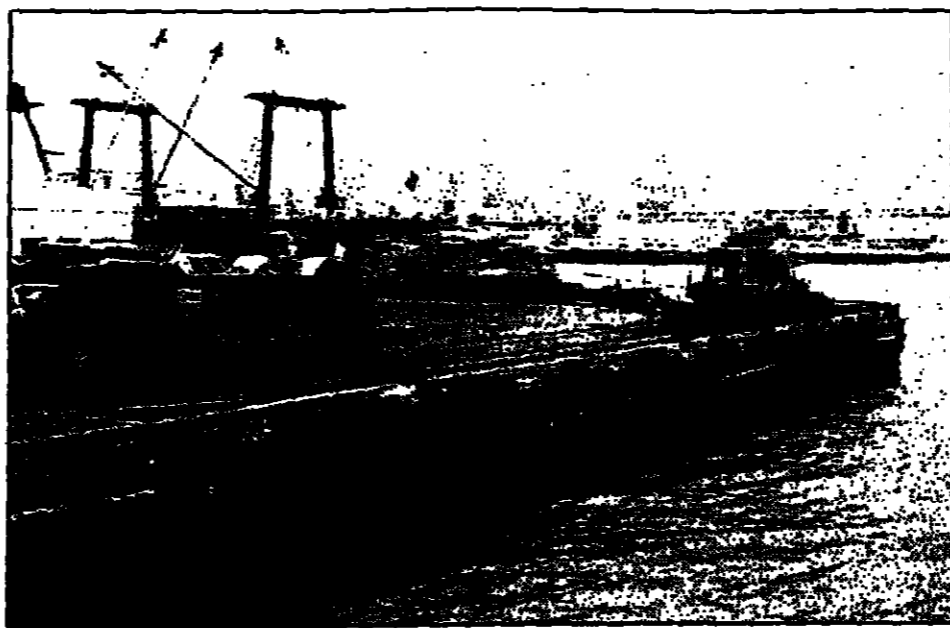
By Barnaby J. Feder

NEW YORK — These should be glory days for America's industrial exporters. Their products bristle with state-of-the-art technology.

"Everyone feels more competitive whether they make sweaters or lasers," said George Knowles, deputy commercial counselor at the U.S. Embassy in London.

But against the background of this encouraging rebound, some built-in constraints are starting to stand out — problems that will hobble the pace at which manufacturing exports can grow.

The most obvious constraint is that foreign customers have to be wealthy enough to buy American products, even when their prices come down in local currency terms.



Caterpillar Inc. equipment being loaded for export from San Francisco.

Industrial nations fail to grow at a healthy clip and developing nations continue to stagger under huge debt loads.

Moreover, dollar declines can do little to help American companies export a substantial number of cars to a country like Japan.

Table titled 'America's Top 8 Export Products' showing dollar value in 1986 in billions of dollars. Aircraft & Spacecraft: \$15.3, Auto Parts: \$9.8, Computer Parts: \$8.2, Computers: \$7.8, Passenger Motor Vehicles: \$6.5, Electronic Components: \$6.1, General Merchandise: \$5.9, Measuring Instruments: \$5.6.

dropped dramatically," said Mr. Joelson. "The decline of the dollar makes our products more competitive, but it is not going to bring out buyers.

percent more cars than the domestic market demands — or basic steel to Europe.

BP Buys Stake In Britoil, Bids For Up to 30%

By Warren Getler

LONDON — In a "dawn raid" Tuesday, British Petroleum Co. snatched up 14.9 percent of Britoil PLC's shares outstanding on the stock exchange.

The offer for the oil company, at 300 pence per share, reflects a premium of more than 60 percent to Monday's close in Britoil shares.

In recent months, BP has signaled its readiness to pursue acquisitions that much demand for U.S.-made steel exists overseas.

Of equal importance, some economists say, is that companies such as Mr. Wendt's are now so lean that they would have trouble meeting a substantial increase in foreign demand.

Steel plate shipments are now one-third the level of the early 1970s, but so close to the industry's current capacity that a few months ago Bethlehem reopened a mill in Burns Harbor, Indiana.

The chemical industry is even more constrained. "Exports rose 20 percent in each of the past two years, but we don't see it happening in 1988 because of capacity limits," said Paul Roessel.

Late Tuesday, BP said that it had purchased 75 million ordinary shares in Britoil on the market.

BP raised \$1.5 billion in a rights issue last month, which was integrated into the government's \$7.5 billion BP share offer to the public.

In November, Kuwait moved to pick up some of the stock, buying a stake in BP that is thought to be around 11 percent.

Britoil shares had touched a high of 300 pence in early trading Tuesday, after news that an unidentified investor had purchased about 15 percent of its shares for 300 pence each or slightly less.

The identity of the investor, BP Petroleum Development Ltd., had been the subject of furious market speculation until the BP parent unveiled its plans at the end of Tuesday's trading.

By the official close of trading Tuesday, Britoil shares had lost some of their early gains, falling back to 266 pence.

"BP is paying a very high price for these Britoil shares in relation to current stock market conditions," said Michael Unsworth.

"This shows how much BP wants these shares, and one assumes that BP will be willing to wait a few years for the government to let go of its golden share."

The government can maintain its veto power indefinitely, but Britoil's management has urged the government to consider lifting the golden share within a few years.

Britoil said later that it was considering BP's offer and advised shareholders not to take any action until it contacts them with advice.

Britoil posted net income of \$33 million in 1986, and most analysts are forecasting a sharp rise to around \$120 million or \$125 million for the current year.

Oil market analysts had been forecasting that big oil companies with ready cash would opt to buy undervalued shares of smaller, strategically placed competitors hoping to acquire them outright rather than pursuing exploration of new oil and gas fields on their own.

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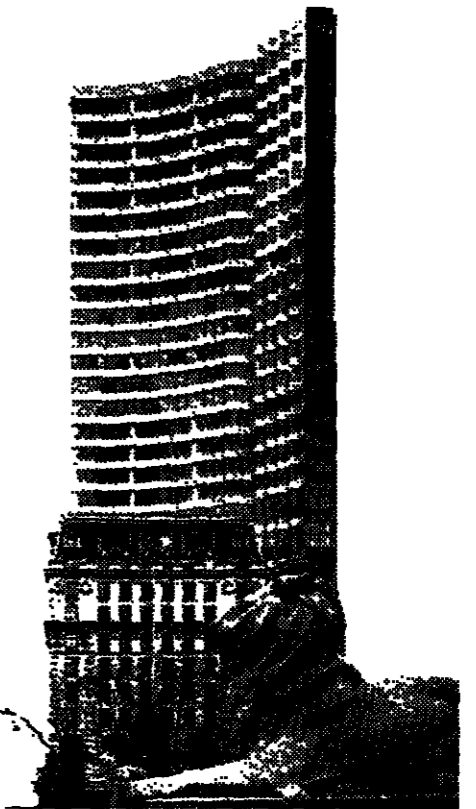
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FIGURES AS AT DECEMBER 31, 1986: TOTAL ASSETS: US \$16.8 billion SHAREHOLDERS' EQUITY: US \$1.6 billion



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Underlying every aspect of Republic National Bank's pursuit of excellence



Currency Rates

Table of currency rates for various countries including Amsterdam, Brussels, Frankfurt, London, Milan, New York, Paris, Tokyo, Zurich, and others.

Other Dollar Values

Table showing other dollar values for currencies like Australian, Canadian, Hong Kong, Indian, Japanese, etc.

Interest Rates

Table of interest rates for Eurocurrency deposits in various currencies like Dollar, D-Mark, Franc, etc.

Key Money Rates

Table of key money rates for US Treasury bills, 3-month CDs, etc.

Asian Dollar Deposits

Table of Asian dollar deposits for 1, 2, 3, 4, and 6 months.

U.S. Money Market Funds

Table of U.S. money market funds including Merrill Lynch Ready Assets and Telerate.

Gold

Table of gold prices in Hong Kong, Luxembourg, Paris, Zurich, London, and New York.

BUSINESS ROUNDUP

Chrysler to Sell Mitsubishi Coupé

HILTON HEAD, South Carolina — Chrysler Corp. is expected to sell through its Jeep-Eagle dealer network a two-door coupé to be built at the new Diamond-Star Motors plant that Mitsubishi Motors Corp. will open in Illinois next year, company sources said Tuesday.

The Diamond-Star plant, due to open in the second half of 1988, presents a joint venture between Chrysler and Mitsubishi, with the two companies sharing its output equally.

U.S. Ruling Bolsters Texaco Stockholders

WHITE PLAINS, New York — The U.S. Bankruptcy Court granted Texaco Inc. stockholders on Tuesday the power to veto any settlement Penzoil Co. attempts to reach with Texaco creditors in the companies' \$10.3 billion dispute.

Eagle Premier midsize sedan was to have been known as the Allure and was scheduled to go on sale in December.

Because of the cancellation, the new plant in Bramalea, Ontario, where the Premier is built, will probably operate on one shift through 1989, Chrysler's vice chairman, Bennett Bidwell, said.

Chrysler said recently that it was placing 2,900 employees on indefinite layoff at plants in Michigan, Delaware and Missouri to try to cut inventories.

Mr. Bidwell said the Allure was canceled because it would have duplicated some of Chrysler's other vehicles.

B&C Will Pay \$188 Million for Rest of Abaco

LONDON — British & Commonwealth Holdings PLC, the financial services conglomerate, said Tuesday that it had reached agreement to acquire the entire share capital of Abaco Investments PLC for £188.3 million (\$338 million).

B&C, which already owned 27.5 percent of Abaco, a financial services group, said the terms of the offer were one new ordinary B&C share and 405 pence in cash for every 10 Abaco shares, valuing each Abaco share at 70 pence.

B&C said Abaco's other major shareholders agreed to the offer. These are Canada Life Assurance Co., with a 9.4 percent stake, and Standard Chartered Bank PLC, with 4.4 percent.

Independent directors who own Abaco shares amounting to a 5.7 percent stake also agreed to accept the B&C offer.

Abaco shares, suspended Monday at 53 pence, closed at 57 pence on the London Stock Exchange, after rising as high as 66 pence after the announcement.

British & Commonwealth fell 10 pence to 285. In July, B&C agreed to acquire Mercantile House PLC, another financial services group, in a share swap valued at \$490 million.

B&C's chairman, John Guan, declined comment, saying that because he is also a director of Abaco that would not be appropriate.

Preussag Expects a Small Profit This Year

HANNOVER, West Germany — Preussag AG, the metals and energy group, said Tuesday that it expected only a small profit in 1987 although sales rose 13 percent in the third quarter from the second.

Commenting on the company's interim report, a Preussag spokesman declined to say whether there might be a dividend on 1987 results. The spokesman said that depended on the dollar's movement for the rest of the year.

The spokesman said Preussag had made only a small profit in the first nine months of 1987.

Preussag's management board chairman, Günther Sassmannshausen, said in May that Preussag was likely to omit its dividend again in 1987. In 1986, the company paid no dividend because of heavy losses in its key base metals division.

In 1986, Preussag's parent company net profit slumped to 900,000 Deutsche marks (\$538,600 at current rates) from 65 million DM in 1985.

It posted a 1986 group net profit of 79 million DM, based on a new method of calculating consolidated results in line with new reporting guidelines.

The 1986 group results were not comparable with 1985 results and figures for revenue this year were not comparable with 1986 data, the spokesman said.

This year group sales stood at 2.3 billion DM in the third quarter and at 6 billion DM in the first nine months. This included figures for W. O. Bergmann GmbH, a metal trading concern that Preussag took over at the start of 1987. Bergmann had sales of 2.2 billion DM in 1986.

In Preussag's metals division, the Amalgamated Metal Corp. subsidiary showed good third-quarter results. Profits from metal trading improved along with spot prices in London and New York.

Zinc prices fell in the third quarter despite relatively good demand on the European market. However, the average zinc producer price in mark terms rose 5.5 percent from the second quarter.

Debt-Burdened Cannon Plans Merger

LOS ANGELES — Cannon Group Inc. said Tuesday that it intended to merge its operations with Media International NV, a hotel and tourism company in Amsterdam that has ties to the filmmaker's European investor.

The debt-laden company did not disclose details of the restructuring. "None of the details have been worked out," said a company spokesman, Bernard J. Kilkelly, in New York. But the agreement was disclosed because "the company felt a need to show that the company is moving forward," he said.

Cannon, based in Los Angeles, elected four European directors to its board, including Bob Hanks-Driessens, a director of Media. The others are directors of Interpart SA of Luxembourg, Cannon's European investor, which since June has advanced the company funds for operating needs and to meet interest payments on its debt.

In November, Cannon owed \$300 million to banks and \$280 million to note holders.

In May, Interpart and Cannon's chairman, Menabem Golan, and president, Yoram Globus, created a vehicle called Interpart Corp., whose goal was to restructure Cannon. Interpart Corp. now controls a major portion of Cannon's stock.

Under the proposal, Cannon and Media, which is traded on the Amsterdam stock exchange, would contribute all their operations to a new company called Cannon-Media Group.

The merger will need approval from shareholders, lenders and U.S. and European government officials, the company said. It is also subject to resolution of shareholder suits pending against Cannon.

In a telephone interview from London, Mr. Globus said his company had reached a settlement with the U.S. Securities and Exchange Commission that "terminated" an investigation into alleged accounting irregularities.

"We didn't admit anything and we didn't deny anything," said Mr. Globus, referring to the settlement.

The SEC filed suit against Cannon on Nov. 9, alleging that the company had defrauded investors and inflated profits.

The suit was settled immediately, according to an SEC spokesman, when Cannon consented to a court order that prohibits future violations of securities laws.

It also agreed to have an independent auditor review its accounting procedures and recommend changes. (NYT, IHT, Reuters)

TransCanada Increases Bid for Encor

TORONTO — TransCanada Pipelines Ltd. said Tuesday that it was raising its offer for Encor Energy Corp., valuing the company's common shares at 1.14 billion Canadian dollars (\$870 million) from 1.06 billion.

TransCanada also said that Dome Petroleum Ltd., for which it bid unsuccessfully earlier this year, had agreed to sell its 42.5 million shares in Encor, representing Dome's 35 percent stake.

Financially troubled Dome, which is itself being taken over by Amoco Corp., said it would use the proceeds of about 398.4 million dollars to repay a loan to Canadian Imperial Bank of Commerce for about 360 million. The loan was secured by the Encor shares.

Dome said it would retain the balance of the money as working capital.

TransCanada said the offer, raised to 9.375 dollars for each Encor common share from 8.75 dollars, was no longer conditional upon receiving at least 50.1 percent of the shares.

TransCanada said it was raising its offer for Encor's 6.75 percent convertible debentures to 937.50 dollars for every 1,000 dollars in principal amount from 875 dollars.

PC Makers Forecast Strong '88

By David E. Sanger, New York Times Service. SANTA CLARA, California — Despite the stock market plunge and fears of a recession, U.S. personal computer makers predicted on Tuesday near record growth in 1988, fueled by demand for a significantly more powerful generation of machines.

The forecasts, which appear to run counter to those for the automobile industry and a range of capital-equipment makers, were made at a Silicon Valley conference. Companies ranging from Apple Computer Inc. to Compaq Computer Corp. said they expected industry growth of 20 to 30 percent in 1988.

"The numbers we are expecting next year are in the 20 to 30 percent range," said Rod Canon, chief executive of Compaq, the Houston-based maker of IBM-compatible machines. "We plan to slightly outperform the industry."

Compaq's sales this year have nearly doubled, and analysts are expecting the company's revenues this year to top \$1.1 billion.

On Monday, John Sculley, Apple's chairman, said he was "quite optimistic" about 1988, as computer buyers move to "much higher-value systems." He said: "There are a lot of aging PCs out there waiting to be replaced."

Some industry analysts are far more pessimistic about next year's outlook, saying that in a recession, corporate computer users would simply delay conversion to a more capable generation of computers.

"There is a real danger that too many companies will make too many personal computers next year," said Richard Shaffer, editor of Technology Computer Letter, which is sponsoring the conference.

Whether companies are willing to make that transition is a key question for International Business Machines Corp., which is spending millions of dollars to convince customers to switch to a new generation of PCs, called the PS/2. IBM has ceased making its older line.

And sales of PCs drive much of the semiconductor industry, which is already nervous that its recent recovery may be short-lived.

HENDERSON MANAGED INVESTMENT COMPANY. 20, boulevard Emmanuel Servais 2535 LUXEMBOURG R.C. LUX B 22847. NOTICE TO THE SHAREHOLDERS PAYMENT OF A DIVIDEND. The Annual General Meeting of Shareholders held on 26th November 1987 has approved the recommendation of the Board of Directors and have proposed to pay a dividend on all the shares outstanding on 25th November 1987 of the following Sub-Funds:

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FIDELITY ORIENT FUND. Société d'Investissement à Capital Variable 13, Boulevard de la Foire, Luxembourg R.C. Luxembourg B 19061. Notice of Annual General Meeting. Notice is hereby given that the Annual General Meeting of the Shareholders of FIDELITY ORIENT FUND, a société d'investissement à capital variable organized under the laws of the Grand Duchy of Luxembourg (the "Fund"), will be held at the principal and registered office of the Fund, 13, boulevard de la Foire, Luxembourg, at 11:30 a.m. on December 29, 1987, specifically, but without limitation, for the following purposes:

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TIGERS: 4 Asian Nations Limiting U.S. Trade Gains On Summit Fringe, Soviets Tout Joint Ventures

(Continued from Page 1) ... its current exchange rate of around 29 Taiwan dollars.

Administration officials recently have made their complaints public. Two weeks ago, David C. Mulford, the U.S. Treasury's top international affairs official, warned the four nations to reduce their export dependency.

By Clyde H. Farnsworth New York Times Service WASHINGTON — Senior Soviet economic officials, here in connection with the summit meeting, have begun efforts to sell skeptical U.S. businessmen on more exchanges and joint ventures with Moscow.

joint ventures when such experiences had been so dismal in other countries. Stepan Sitiryan, deputy chief of the Soviet State Planning Commission, Gosplan, said, "We have studied joint ventures very closely, and the fact that the experience is not positive puzzles us, too."

Monday's group comprised about 30 midlevel American executives, many of them Washington representatives of major companies. Also attending were officials from the Commerce Department and the U.S. Chamber of Commerce.

The meeting was seen as a small-scale preview of one scheduled for Thursday afternoon at the Soviet Embassy between Mr. Gorbachev and chief executives of about 80 leading companies.

At the bottom of the '87 crash Indigo put together an index of ten high-tech stocks with an average price near \$10 which showed promise of moving back up.

Ready to Double Indigo is not a licensed broker. Avda Palma de Mallorca 43, Terrasferres, Malaga, Spain. Telephone 34-92-389500 - Telex 79472.

CONSTRAINTS: Lower Dollar Is Not Enough to Aid U.S. Industrial Exporters

(Continued from first finance page) chemical industry's tough 1982-1983 period. "You have just gone through the trauma of cutting back, you're going to turn around and build up quickly," Mr. Roesel said.

chargers to Japanese car makers opens a plant in Japan to be near its customers. The strength of this impulse to move current exports into overseas production showed up in a recent study of high-growth midsize companies by management consultants McKinsey & Co.

ments, and they want the components to arrive only when needed. This strategy saves them the costs of owning, storing and keeping track of millions of dollars worth of components.

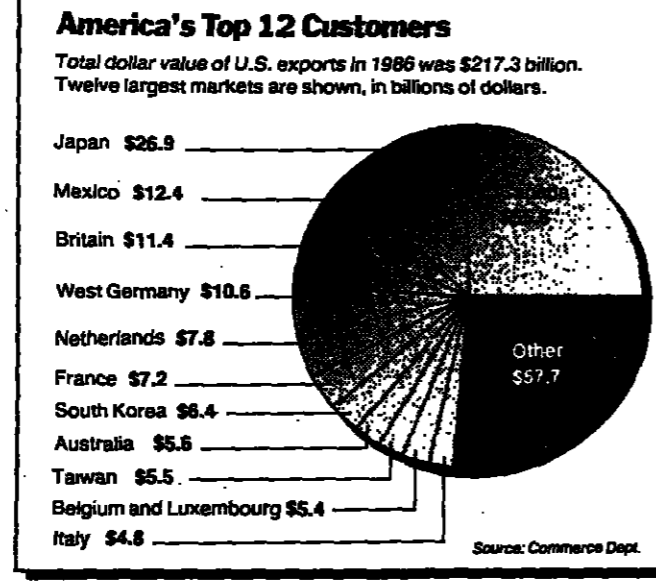
ket for computer-aided tomography diagnostic devices, better known as CAT scanners. GE ran into repeated delays when it began trying to obtain its first export license in 1980, a process that eventually consumed two years.

Today, as GE has become more familiar with the equipment modifications the government requires on shipments to communist nations such as China, the licensing has been cut to nine months.

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'By the time we get an export license, the order has in some cases gone elsewhere.' — Robert Mollier, General Electric Co. not many impulse buyers for the capital goods, chemicals and high-technology products that are the nation's leading exports.

Smaller firms 'come in a blaze of glory and expect to sort out a deal overnight.' — David Boddy, London consultant ports that are frequently overlooked. Consider the following situations: An American manufacturer that is the largest supplier of turbo-

tic companies doing business overseas. The same forces will be working on companies now rushing into export markets because of the declining dollar. "By and large, there are capacity restraints for growing small and midsize companies that will be felt much sooner than they think," said Amir Mahini, McKinsey's director of international research.

Part of that effort was devoted to finding a local partner to join it in the bidding. Mr. Boddy said that the need to form local alliances is typical of such deals and one of many stumbling blocks that discourages would-be exporters.

Using this strategy, manufacturers are pressing companies like Allied Signal to deliver smaller ship-

As long as man can remember, gold has been the standard of wealth. It has been the best insurance against inflation and times of trouble. More secure than empires, certainly more secure than paper. And now there is a new, simple way to buy it. The new Britannia coin contains one ounce (31.1035 grams) of pure gold. It is guaranteed by the British Royal Mint, the oldest mint in the world.

ADD SOMETHING SOLID TO YOUR PORTFOLIO. INVEST IN THE NEW GOLD BRITANNIA.

It is available from all banks and brokers. And there are three other coins, which contain half an ounce (15.55 grams), a quarter of an ounce (7.78 grams), and one tenth of an ounce (3.11 grams) of gold. Their price, of course, is determined by the current price of gold. Which, in the long term, has always risen. The new Britannia from The Royal Mint. THE ROYAL MINT



Table with columns: London Commodities, Dec 8, Bid, Ask, High, Low, Prev. Close, Settle. Includes data for U.S. Dollars per metric ton, COFFEE, COPPER, and GOLD.

Table with columns: Paris Commodities, Dec 8, High, Low, Close, Ask, Curve. Includes data for SUGAR, COCOA, and COFFEE.

Table with columns: Dividends, Dec 8, Company, Par, Amt, Pay, Rec. Includes data for Hymint Inc, Southern Fed Svcs, Met-Pro Corp, and Tropic Co.

Table with columns: U.S. Treasuries, Dec 8, Maturity, Bid, Offer, Yield, Prev. Yield. Includes data for 6-months bill, 1-year bill, 30-yr. bond, and 10-yr. note.

Table with columns: S&P 100 Index Options, Dec 7, Bid, Ask, High, Low, Prev. Close, Settle. Includes data for Dec 11, Dec 18, Dec 25, and Dec 31.

Table with columns: London Metals, Dec 8, Bid, Ask, Prev. Close, Settle. Includes data for ALUMINUM, CATHODE COPPER, CATHODE ZINC, and LEAD.

Iberia Airlines Orders 40 Pratt & Whitney Jets United Press International EAST HARTFORD, Connecticut — Pratt & Whitney has received an order for 40 jet engines from Spain's Iberia International Airlines, company officials said.

CURRENCY MARKETS

Dollar Declines in Thin Trading

NEW YORK — The dollar fell Friday in thin New York and European trading, dealers said, while most market participants avoided taking fresh positions before U.S. trade figures for October are released Thursday.

Most economists predict that the U.S. trade deficit for October will be \$14 billion to \$14.5 billion, after the \$14.08 billion gap in September.

The trade number could turn out to be a non-event, if it is little changed from September, said one trader at a New York bank.

In New York, the dollar fell 1.5 points to 1.6635 Deutsche marks, from 1.6785 DM on Monday, to 1.3265 yen from 1.3295, to 1.3585 Swiss francs from 1.3695, and to 5.6410 French francs from 5.6840.

The British pound rose to \$1.7995 from \$1.7860.

London Dollar Rates

Table with columns: Currency, Bid, Ask, Change. Includes Sterling, Japanese yen, Swiss franc, French franc.

In London, the dollar edged down to 1.6667 DM from 1.6710 DM on Monday to 1.3265 yen from 1.3277, to 1.3628 Swiss francs from 1.3635, and to 5.6525 French francs from 5.6613.

The pound rose to \$1.7965 from \$1.7945.

Against the mark, the pound's closing 2.9962 DM was little altered from its opening 2.9952 and

FRANKFURT — West German money market rates edged higher Tuesday after the Bundesbank offered banks 35-day funds through a new round of securities repurchase agreements at 3.25 percent.

Some dealers were disappointed that last week's cut in the benchmark discount rate to 2.50 percent from 3 percent did not lead to a further reduction in the key repurchase rate to 3 percent.

However, most dealers and analysts said such a move was not necessary in view of relatively high money market liquidity and currency stability.

Call money firmed to an average 3.2 percent from 3.15 on Tuesday, one-month funds held at 3.55 percent, three-month money rose to 3.60 from 3.55, and six-month Euromark rose to 3.75 from 3.69.

Greenspan Evokes 'Fiscal Discipline'

WASHINGTON — Alan Greenspan, chairman of the Federal Reserve Board, said Tuesday that fiscal discipline was needed as well as careful money supply policies to foster economic growth.

"For the Federal Reserve, this means maintaining price stability in which the forces of economic growth can be fostered and sustained," he said in a speech. "But prudent monetary policy is not a sufficient condition for a stable, noninflationary financial climate. Fiscal policy must also play a role."

Mr. Greenspan said financial markets around the world would "continue to be subject to shocks" until the problem of U.S. budget deficits was fully addressed.

OPEC Is Squeezed by Falling Dollar

Options Are Few for Countering Loss of Purchasing Power

By Warren Getler International Herald Tribune

LONDON — The OPEC oil producers, feeling the pinch of the dollar's long slide since 1985, are increasingly desperate to find some means of protecting their shrinking purchasing power but have very few options for doing so, economists and industry sources say.

According to these analysts, much of the debate on Wednesday's year-end meeting of the Organization of Petroleum Exporting Countries in Vienna will center on how to compensate for the continuing decline in the value of the dollar, the currency in which oil contracts are denominated worldwide.

Iran, engaged in a costly war with neighboring Iraq, is pushing for a \$2.70 a barrel price increase at the meeting, while other states have fitted with the idea of decoupling the price of oil from the dollar in favor of an unspecified "basket" of currencies.

Between December 1986 and November this year, Gulf oil producers — the dominant partners in OPEC — have suffered an estimated 13 percent decline in income as a result of the dollar's depreciation, said Philip K. Verleger, an analyst at the Institute for International Economics in Washington.

"The decline in the dollar has drastically impaired the ability of OPEC members to afford the capital goods and consumer goods for continued economic progress," Mr. Verleger said. He noted that many import contracts for such goods are denominated in currencies that have appreciated sharply.

Since the beginning of the year, the dollar has fallen about 17 percent against the British pound, 13 percent against the Deutsche mark, 11 percent against the French franc and 16 percent against the yen.

In addition to an increase in the price of oil, another remedy to the weak dollar being put forward by the Iranians — and aired repeatedly by OPEC's president, Riwanu Lukman of Nigeria — is a switch from dollar-based pricing to a system pegged on a basket of foreign currencies. That would protect against further revenue declines but would not compensate for previous losses.

"The price of oil should be reviewed in line with the dollar's depreciation every year, or a basket of foreign currencies should replace the dollar in accounting oil prices," Iran's oil minister, Ghomreza Aqazadeh, was quoted as saying in Tehran on Monday.

But market observers say that neither course is likely to find major support within OPEC and that the proposals would not, in any event, be practicable.

"OPEC in the end will not be able to raise its fixed price or move out of the dollar," said Humphrey Harrison, a senior oil analyst with Banque Paribas Capital Markets in London. "The only course open to it will be a general cutback in production. Whether it can agree to that is questionable, particularly in the light of members' already reduced purchasing power from oil revenues."

An increase in the official price of \$18, supported by Libya and Algeria and possibly Nigeria, will be fiercely resisted by the Saudis and the Kuwaitis, influential voices within the 13-member consortium who insist that a price rise is not viable under current demand and would hurt OPEC's market share.

The Saudis and Kuwaitis are known to be particularly concerned that a higher price would also encourage U.S. producers to revive long-idle capacity.

Moreover, the Gulf states have shown no interest in abandoning

the dollar, an idea that has bounced around OPEC circles for years but never caught on, except for a short-lived experiment with a currency basket in the early 1970s.

"The Saudis have said they are not prepared to discuss abandoning the dollar, and there are sufficient realists within OPEC to keep it off the agenda," Mr. Harrison said.

Mr. Verleger, the Washington-based economist, said OPEC had no real formula for overcoming the dollar dilemma.

"They may try lots of things to compensate for the substantial cut in their real incomes caused by the dollar's decline, but they're going to fail," he said. "But they won't be able to switch into another currency because there simply is no other currency in sufficient circulation — there's just not enough Deutsche marks, Swiss francs or Japanese yen in the world for that."

Joe Stanislaw, managing director of Cambridge Energy Research Associates in Paris, said the dollar's decline was more painful to some than others.

"It hurts all OPEC producers," he said, "but is not overwhelmingly painful, except for those countries, such as Indonesia, which do the bulk of their trade in non-dollar currencies. Indonesia trades primarily in the Japanese yen and has heavy yen-based debts."

One of the likely repercussions of a sustained decline in the dollar's value, he said, would be a shift in OPEC buying patterns toward such dollar-oriented economies as Mexico, Brazil, Taiwan and Singapore.

According to Mr. Stanislaw, individual member states also may resort increasingly to barter to obtain what they perceive as favorable terms on imports of capital goods and consumer goods.

VIENNA — A key OPEC committee, meeting Tuesday a day before a full session of the oil cartel, termed the market situation very serious and called for adherence to official prices, OPEC delegates said.

They said a report by the six-nation market monitoring committee had made no specific reference to keeping the price of \$18 per barrel. But, they said, the report expressed concern about the supply and demand outlook in the first half of 1988 and urged efficient monitoring of output by the Organization of Petroleum Exporting Countries.

Ecuador's oil minister, Fernando Santos Alvide, said earlier that the committee would recommend to the full meeting that the group abide by the \$18 price. But his account of the meeting differed from that of other OPEC delegates.

"Since the beginning of the year, there has been a clear increase in barter trade by Iraq, Iran, Kuwait and the Saudis," said Mr. Stanislaw. "They will use barter to try and get preferential terms for their oil, but I think it's more important for them as a device to generate markets for their crude" during the current glut.

In what may be the largest oil barter deal ever, Saudi Arabia agreed early last year to swap oil to pay for its \$7 billion purchase of Tornado fighter aircraft and other support planes.

"I think barter will pick up and spread as a convenient form of discommoding, which will make the oil price, even more unstable," Mr. Verleger predicted.

German Money Market Rates Edge Higher

FRANKFURT — West German money market rates edged higher Tuesday after the Bundesbank offered banks 35-day funds through a new round of securities repurchase agreements at 3.25 percent.

Some dealers were disappointed that last week's cut in the benchmark discount rate to 2.50 percent from 3 percent did not lead to a further reduction in the key repurchase rate to 3 percent.

However, most dealers and analysts said such a move was not necessary in view of relatively high money market liquidity and currency stability.

Call money firmed to an average 3.2 percent from 3.15 on Tuesday, one-month funds held at 3.55 percent, three-month money rose to 3.60 from 3.55, and six-month Euromark rose to 3.75 from 3.69.

"Some people expected a lower rate," said Günther Teich, treasurer of Bank of Boston's Frankfurt operations, "but they should not see 3.25 as negative. Banks have more than enough funds at the moment."

Although bank holdings at the Bundesbank fell to 57.4 billion Deutsche marks (\$34 billion) at the end of last week from \$9.7 billion on Thursday, the average for the first six days of December was still a relatively high 58.0 billion.

The money market has been awash with liquidity in recent days, thanks in part to last week's open market Deutsche mark sales by the Bundesbank and other central banks to ease pressure on the dollar and the European Monetary System, the mechanism of fixed exchange rates linking eight currencies.

Some dealers said the Bundesbank's participation alone may have come to \$1 billion.

Tuesday's OTC Prices. NASDAQ prices as of 4 p.m. New York time. This list, compiled by the AP, consists of 1,200 most traded issues in terms of dollar volume. It is updated twice a year. Via The Associated Press.

Table A: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like ABB, ADI, ADP, etc.

Table B: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table C: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table D: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table E: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table F: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Market Worries Cartel Committee

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Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.

Tuesday's AMEX Closing. Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.

Table G: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table H: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table I: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table J: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

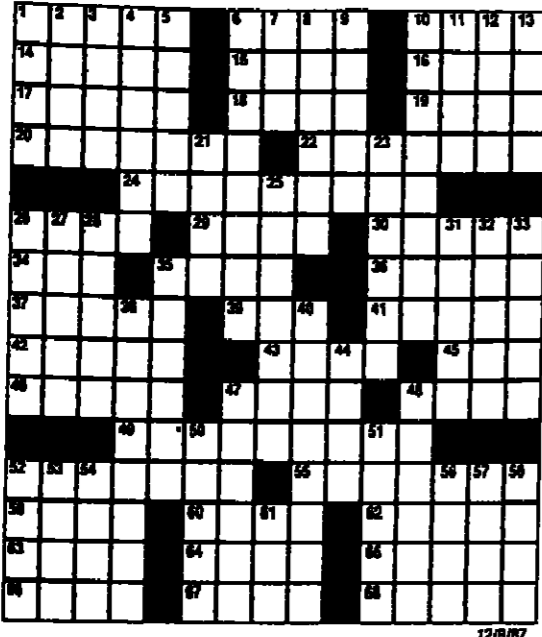
Table K: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table L: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table M: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table N: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

Table O: 12 Month High Low Stock Div. Yld. Sales in 1986 High Low 4 P.M. CHG. Includes companies like AIG, AIGP, AIGS, etc.

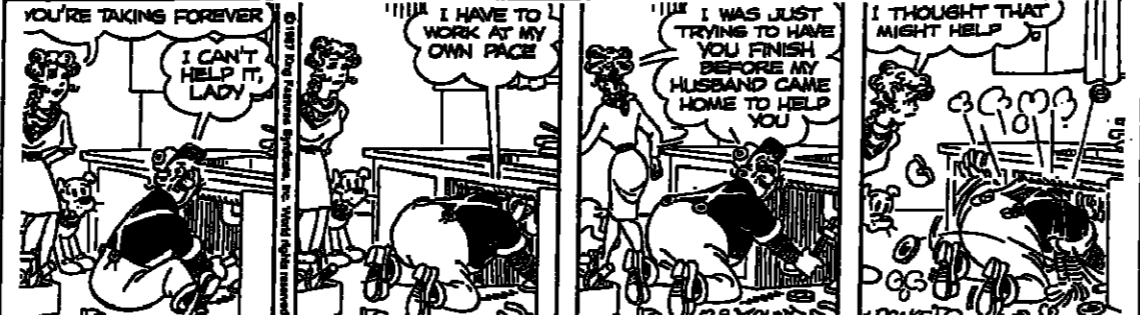


CROSSWORD puzzle clues: ACROSS 1 Yellow stone, 6 Grease, 10 Shear, 14 Dumbfound, 15 Jug, 16 Storyteller's material, 17 St-John's bread, 18 Tolstoy heroine, 19 the playing fields of, 20 Knotty, 22 Wind instrument, 24 Mole's prey, 26 Lily of opera, 29 Carlo, 47 Distinctive air, 48 Writer of westerns, 49 Man from the Yard, 52 Sentences to prison, 55 Seminole chief, 59 Sylvan plant, 60 Sod for fuel, 62 Purposeful, 63 Love, for Plácido, 64 Branches, 65 Fanfare, 66 Forbids, 67 Actor, 68 Rents, 12 Ferrum, 13 Tony of baseball, 21 Therefore, 23 Hopper or Turner, 25 Frequenter, 26 Agreements, 27 City on the Missouri, 28 Of ships at sea, 31 Engraver, 32 Declaim, 33 British-Indian, 34 Soldier, 35 Launderers, 38 Some on Wall Street, 40 Sleep-producing, 44 Broadway musical, 47 Beg, 48 Place to spend, 49 drachma, 50 Above: Comb. form, 51 Two foursores, 52 Fame, 53 Bombeck, 54 A dog's skin, 56 Pot for Pedro, 57 Ananias, 58 Bible book, 61 Pierre's soul.

PEANUTS



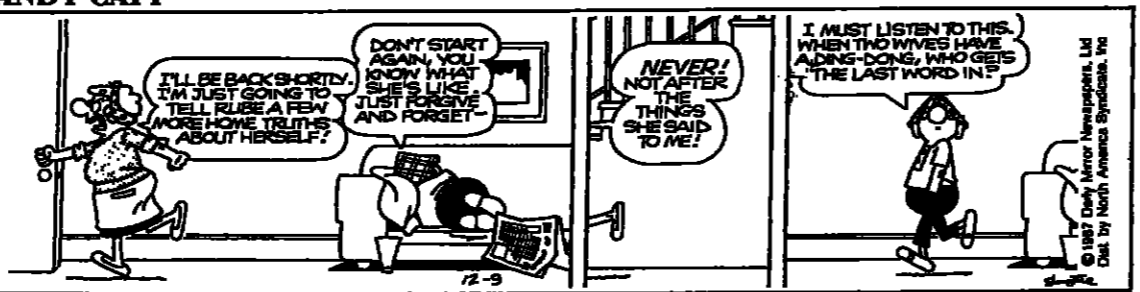
BLONDIE



BEEBLE BAILEY



ANDY CAPP



WIZARD OF ID



REX MORGAN



GARFIELD



BOOKS

THE SHIFTING POINT By Peter Brook. Illustrated. 254 pages. \$22.50. Harper & Row, Publishers Inc., 10 East 53d Street, New York, N. Y. 10022.

Reviewed by Mel Gussow In the preface to his new book Peter Brook announces that he has never believed in "a single truth" but has always sought a point of view with which one has "passionate and absolute, identification." The fact is that Brook is neither didactic nor dogmatic, but "stereoscopic" in his receptivity to experiences and to theatrical possibilities. That flexibility is not always readily apparent to viewers of his individual works; so many of them seem to make definitive statements. In his career—a career that in its virtuosity is unmatched by that of any other contemporary director—he has leaped from landmark to landmark, with work as varied as "Marat-Sade" and "A Midsummer Night's Dream."

subsequently sold). To Brook's dismay, producer asked him, "What are we going to call the film?" In such a fashion, the author offers plenty anecdotes that act to lighten the philosophical load (but not the portent) of his book. At the same time, one must note of a culinary variety a metaphor, especially one of a "can opener" (theater as "the stomach" as "a can opener"). Those inebriated phrases aside, Brook's book documents his open road to rediscoveries. Along with "The Empty Space." "The Shifting Point" earns its place in the library of invaluable theatrical volumes.

Mel Gussow is on the staff of The New York Times.

BEST SELLERS

Table of Best Sellers. Includes categories like FICTION, NONFICTION, and a list of books with authors and sales figures.

Brook's "shifting" is actually a searching. Just as he has not allowed himself to be locked into predictability, he has resisted career opportunities with a consistency bordering on defiance—he has not been trapped by his own past. His Paris-based theater emphasizes research; process remains more important than result. This is one reason it is so fascinating to read about Brook's journeys. The articulation he demonstrates as a director exists equally in his writings and in his conversation, which are often syncretic.

In contrast to his previous book, "The Empty Space," which derived from a series of university lectures, "The Shifting Point" is an informal, collective provenance. It is an anthology of articles, prefaces and edited excerpts from interviews drawn from a period of 41 years. However, what the book lacks in structure it more than compensates for in content—and it whets one's appetite for a real Brook memoir.

A skillful writer, he is revealing about the genesis of his own art and also about the art of others. The firsthand impressions of Gordon Craig, John Gielgud and Jan Kott are the perceptions of a man with the keenest eye for relevant detail. The tale of the laborious effort that went into the film of "The Lord of the Flies" is vintage Hollywood reportage. The story opens, favorably, with Sam Spiegel holding a beautiful conference about the novel he has just purchased (and which he

DENNIS THE MENACE



JUMBLE

Jumble puzzle: Unscramble these four Jumbles, one letter to each square, to form four ordinary words. GALLE, DENEY, UNCOOP, WORMAR. Answer: THE, BEHALF, FRENCH, BREAD.

WEATHER

Weather forecast table with columns for Europe, Asia, Africa, Latin America, North America, Middle East, Oceania, and a weather key.

World Stock Markets

World Stock Markets table: Closing prices in local currencies, Dec. 8. Includes sections for Amsterdam, London, Frankfurt, Zurich, Tokyo, and various international indices.

BRIDGE

By Alan Truscott A MIXED pair from the Midwest was in the lead at the midpoint of the prestigious Blue Ribbon Pair Championship at the American Contract Bridge League's Fall Nationals. After the first semifinal session, Dennis Clerk of Bloomington, Indiana and Marjorie Letizia of Columbus, Ohio, were ahead of their nearest challengers by the slender margin of four match points. The Almost 4,200 players competed here and all of them played with a spade lead, which occurred at the same table, but was a little more tricky after a diamond lead. South ruffed and crossed to the heart king. It was Game. This year the primary beneficiary is the Arthritis Foundation, which was presented with a check for heart ruff immediately, preserving the ace in the closed hand, eventually found that the spade finesse was risky. If it lost, West might be able to give his partner a fourth-round heart ruff.

Bridge hand diagram showing a deal with cards in North and South hands.

Financial tables: Toronto, London, Zurich, Sao Paulo, Tokyo, and other international market data.

To Our Readers Montreal stock prices were not available Monday due to technical problems at the Associated Press in New York. We regret any inconvenience to readers.

Chevron Raises Stake In Japanese Venture SAN FRANCISCO—Chevron Corp. has raised its stake in Karouite Chemical Co. to 82 percent from 45 percent by buying most of the equity belonging to Japan's Kao Corp. Karouite is a Japanese maker of lubricating oil additives.

The Daily Source for International Investors.

Handwritten signature: JPY, ciol'50

SPORTS

Lendl Ends Dominating Year With a 3-Set Rout of Wilander

By John Feinstein
Washington Post Service
NEW YORK — When we last left Ivan Lendl and Mats Wilander...

broke in the first game of the second set and, except for some yammering at a few in the announced crowd of 14,107, had few worries.

Lendl's forehand was so wicked that it set up opportunities time and again to come in and put away easy volleys. There were a few unreturnable rallies, but for the most part Lendl kept Wilander off balance and in trouble.



Ivan Lendl: Still hungry.

Wilander summed up the match accurately: "He just played too good for me. After a while you don't know what to do. It was very frustrating."

Not for Lendl. Amazingly, his hunger to win, to improve, never seems faded. "I can still get better," he said.

A Hyped-Up Draw in Zurich, a Surefire Draw in Milan

International Herald Tribune
LONDON — To each his own. This Saturday afternoon Luciano Pavarotti, a well-known soccer fan, stars at the Hallen Stadion in Zurich.

Indeed, Gullit is headed either for the top superstar or the second league, where spectacular trails burn out.

excitement of the mercurial French-African tennis player, Yannick Noah.

Andre Dawson this year's most valuable player, even though his Chicago Cubs finished last in baseball's National League.

John Bosman are both top class. Indeed Ajax has Arnold Mühren in revival, igniting the likes of Brian Roy, a precocious black teen-age winger.

ROB HUGHES

does, says and breathes is compulsive viewing, and press officer Guido Tognoni has pronounced: "We want to make this draw less boring and, we hope, more entertaining for our worldwide viewers than maybe previous draws."

You were all warned here a year ago that Gullit was on the way. The doubt was whether he could be persuaded to take sport seriously or whether, at 24 and a wanderer along his own Rastafarian path, have-guitar-will travel instincts would carry him into the land of pop.

Soccer is winning. Gullit hasn't to my knowledge made a record since "Not the Dancing King," he has given rise to the genius in his feet and has begun gathering in the game's rewards.

It may be premature to regard him as establishment, or even tame. He could no more bend the knee than Bobby Fischer, and a cap to doff to commitment would look ridiculous on his flowing dreadlocks.

Yet not for 12 months has Gullit been a manager heart failure (Dutch national boss Rinus Michels is learning to live with him now that the AC Milan star is the most regular of goal-scoring — six in six internationals).



Ruud Gullit, star: An immense man of immense talent.

VANTAGE POINT/Scott Ostler

Price Is High for South African 'Guilt Premium'

LOS ANGELES — How about Ian Woosnam, folks? The plucky little Welsh golfer took the big enchilada last Sunday. He cashed the only check in the winner-take-all Million Dollar Challenge in Sun City, South Africa.

to counteract the rest of the world sees as wrong. To counteract this boycott, South Africa has gone to the jugular. It dangles huge sums of money in front of big-name athletes.

On the United Nations list of sports people who ignore the ban, there are 60 golfers. Golf, of course, has never been a great social leveler. You can't blame Wadkins and Strange for ancient history. And maybe they truly believe in the old I'm-not-political line of reasoning.

SCOREBOARD

Basketball

Table with columns for National Basketball Association Leaders, Team Offense, and Team Defense. Lists teams like Denver, Detroit, San Antonio, etc., with their respective stats.

Football

Table with columns for Final Top-20 Polls and NFL Standings. Lists top 20 colleges and NFL team standings.

U.S. College Results

Table with columns for U.S. College Results, listing various colleges and their performance metrics.

Rose Confirms Retirement

DALLAS — Pete Rose, manager of the Cincinnati Reds and baseball's career leader with 4,256 hits, confirmed Monday that he has played his final game.



"It's not like I'm out of baseball, like they've taken the uniform off me," he said. "I spend twice as much time at the ballpark now as a manager as I did when I was a player, and I almost lived there when I was playing."

He retired with major-league records for hits, at-bats (14,053), games (3,562) and singles (3,205); he ranks second in doubles (746) and fourth in runs (2,165).

SPORTS BRIEFS

Marino Leads Dolphins Past Jets, 37-28

MIAMI (AP) — Dan Marino, bouncing back from one of the worst performances of his career, passed for 293 yards and one touchdown and ran for another score, leading the Miami Dolphins to a 37-28 National Football League victory over the New York Jets here Monday night.

Baseball Strike Zone Reduced, Sort Of

DALLAS (Combined Dispatches) — The strike zone, which pitchers claim has shrunk over the years, was officially reduced Monday during baseball's winter meetings, but those responsible for it said the rule change should result in more strikes being called.

Quotable

Wes Matthews of the Los Angeles Lakers on Seattle's Xavier McDaniel, with whom he scuffled Nov. 24: "I don't know what his problem is. I can't wait until we play again. His bald head is mine."

Hockey

Table with columns for NHL Standings, listing various NHL teams and their performance.

Transition

Table with columns for Baseball transactions, listing player movements between teams.

Advertisement for Blancpain watches, featuring a large image of a watch and the text 'BLANCPAIN SINCE 1735 THERE HAS NEVER BEEN A QUARTZ BLANCPAIN WATCH. AND THERE NEVER WILL BE.' Below the watch is the name 'david morris'.

OBSERVER

Pass the Horsewhip

By Russell Baker
NEW YORK — When the Reverend Jerry Falwell and his mother were crudely savaged by Larry Flynt in Hustler magazine, Falwell called his lawyer and said "Get him," thus compelling a story illustrating the sad decline of American character.

must suffer emotional distress every day when they see what press and TV have done to them.
I have seen presidential candidates rage—or exhibit "emotional distress," if you will—because a newspaper ignored speeches they made or small triumphs they scored, or reported them on page 36 instead of page 1.

By Michael Gibson
PARIS — "La Passion Béatrice," Bertrand Tavernier's latest film, seems to have taken quite a few people by surprise.
"Un Dimanche à la campagne" was a gentle and compassionate reflection on loneliness and age, "Round Midnight" a moving insight into the life of a jazz musician, "La Passion Béatrice," however, is a stark and violent tale, a tragedy marked by incest, which unfolds during the 14th century in a small, walled-in fortress in southwestern France.



Tavernier (right) with Julie Delpy during filming of "La Passion Béatrice."

The story, written by Colo O'Hagan, Tavernier's former wife, revolves around François de Cortemart (Bernard-Pierre Donnadieu), the violent, desperate lord of the castle, and his daughter, Béatrice (Julie Delpy). There is something thoroughly Celtic about Colo's script, Tavernier said, "and even though the story unfolds in France, it is very much of a Celtic tragedy. In a sense, Colo went out and observed her characters in the wilds, instead of bringing them back to the zoo to study them in a cage. I suppose it is a peculiar French fable to want to apply the criteria of contemporary psychology to all the other ages. Colo, however, has managed to give a free rein to the feelings of her characters."

of gross brutality and unexpected moral niceties.
"I picked up a lot of clues reading the etiquette manuals of the period," he said. "I would find out what the manual recommended and then tell the actors to do just the opposite. Because, if the manual says you mustn't blow your nose in the tablecloth, for instance, we may assume that this was something people actually did." One actor in the film does indeed use the tablecloth as a handkerchief.

campaign," for instance, was inspired by the Impressionists. This is absolutely not the case, since I constantly stressed depth of focus in this film, making everything appear as sharp as possible, even in the distant background, whereas the Impressionists, of course, tended to do quite the opposite."
Both Emmanuel Le Roy Ladurie and Jacques Le Goff, leading authorities on the period and practitioners of a historical method that delves into the daily lives of ordinary people, responded enthusiastically to Tavernier's portrayal. According to Le Goff, it is the first film that allows one to glimpse the medieval period stripped of the stereotypes usually encountered in movies. Le Roy Ladurie says that Cortemart is guided not by lust but by a desperate desire, by a desperate desire to provoke God at a time when everything appears out of joint. "My Lord God, I hate you!" he cries out despairingly.

He grows up with a great admiration for American films and a fascination for the United States in general that led him, a couple of years ago, to invest money into a sequence of four documentary films about William Faulkner country in Mississippi. The films, conceived for television, have been shown on French television, but Tavernier has not yet managed to arouse any interest for them in the United States.
He is very much a man of the provinces in a country that, by administrative and political tradition, is focused on Paris. "In my profession," he ruefully observed, "one is unfortunately obliged to become a Parisian. But I feel very deeply rooted in a certain French climate which I am eager to reveal in my pictures. I don't think I shall ever lose certain traces tied to the first five years of my life, which I spent in Lyon. They constantly reappear in my pictures—in the lighting, for instance, or in the arrangement of a room, or in the profile of some secondary role."
The differences between Paris and the provinces are not always easy to define. One might say, for instance, that the Parisian character is best exemplified by the violin, brilliant but at times shrill. Tavernier's France is more sensitive, but also warmer and more thoughtful—closer to the cello, in fact.
The score for "La Passion Béatrice" was derived from medieval music but composed by the American jazz musician Ron Carter. The cello is just one of the instruments he plays.

PEOPLE

Prince Charles Attends La Scala Season Opener

About 300 onlookers pressed behind barriers in cold and fog Monday night to catch a glimpse of Britain's Prince Charles entering Milan's La Scala theater for the gala debut of the opera season with Mozart's "Don Giovanni." The opera-loving prince was not accompanied by his wife, Diana, who was in London attending a charity premiere of the film "Dancers." The prince was applauded as he arrived at his box, which he left only once, to pose briefly for photographers at intermission.
The rock star and actress Madonna, citing irreconcilable differences, filed for divorce from actor Sean Penn after 27 months of matrimony. She asked for restitution of her maiden name—Madonna Ciccone—and division of the couple's property in line with a prenuptial agreement, according to court records in Santa Monica, California. Madonna, 29, and Penn, 27, were married Aug. 23, 1985, in a lavish ceremony on a Malibu bluff as photographers' helicopters buzzed overhead.
The American Academy of Arts and Letters has elected the writers William Styron, James Dickey and the late Joseph Campbell to the organization, the nation's highest honor society for literature and fine arts. Styron will take the seat held most recently by Lillian Hellman and Erskine Caldwell. Dickey will take the chair previously held by Richard Wright and John Steinbeck. Campbell died Oct. 31, after the election. The academy also named three new officers, novelist John Updike as chancellor and composer Milton Babbitt and poet Howard Nemerov as vice chancellors.
Former President Richard M. Nixon wanted to show the first scoop of dirt at the groundbreaking of his long-delayed presidential library. "There's no doubt in my mind that health permitting, he intends to come and we will host gold shovels in the ground in September," Mayor Roland Ekigone of Yorba Linda, California, said. Construction of the library, a \$25-million center, is the former president's hometown should be completed by July 1990, the mayor said.

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